

# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Europe's communists  
swing back towards  
Moscow, Page 13

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## World news Business summary

### Thatcher plays down summit differences

Prime Minister Margaret Thatcher says the U.K. Government might agree amendments to the Treaty of Rome and would consider carefully any proposals put forward. She emphasised that the proposed inter-governmental conference to consider changes, following the abortive EEC summit in Milan, must deal with practical proposals rather than vague hopes. Quoting German and French newspapers which shared her impatience with the other EEC government leaders, Mrs Thatcher stressed that the summit decisions reflected British thinking. Page 14.

### Cabinet reshuffle

Spanish Prime Minister Felipe Gonzalez is expected to drop six ministers from his Cabinet, the first changes since his Socialist Workers' Party took office in 1982.

### Leader kidnapped

Gunmen claiming to belong to the Party of the Poor have kidnapped United Socialist leader Arnaldo Martinez in Mexico City during campaigning for next Sunday's election. Page 6.

### Election extended

The Zimbabwe Government has hurried through legislation to extend the general election for a further two days after only 500,000 of the 2.9m voters were able to cast their votes on the first day because of long queues.

### Premier re-elected

Dominican Prime Minister Eugenia Charles was elected for a second five-year term but with a reduced majority.

### Recovery hopes fade

Hopes of recovering the flight recorder of the Air India Jumbo jet that crashed into the Atlantic off Ireland faded with the failure of recovery ships to pick up its homing signal.

### Lusaka bomb denial

Zambia blamed South Africa for the bomb that damaged the African National Congress building in Lusaka, but the South African Defence Force "categorically denies any involvement in the blast".

### Lead-free launch

French petrol companies began selling lead-free petrol at over 100 garages as the first step in a programme to reduce air pollution adopted by EEC environment ministers.

### Comet rendezvous

An Ariane rocket carrying Europe's Giotto spacecraft has been launched from French Guiana to rendezvous with Halley's Comet next March. Page 8.

### Biko evidence

A South African security policeman in charge of interrogating black leader Steve Biko, who died in custody, said he would have handled the investigation differently if doctors facing a medical inquiry had told him Biko was seriously ill.

### Mitterrand slip

A quarter of the French voters who backed socialist Francois Mitterrand in the 1981 presidential election have changed their minds, according to a survey by the independent Sofres organisation.

### Prison hostages

Rioting prisoners in the Tennessee state prison in Nashville took 12 guards hostage during a protest over wearing striped uniforms.

### Chinese executions

China has executed two officials charged with forming an anti-government group and killing security officials.

## Gorbachev reinforces his authority by promoting Shevardnadze

### Gromyko leaves foreign ministry for presidency

BY PATRICK COCKBURN IN MOSCOW

MR ANDREI GROMYKO was elected President of the Soviet Union yesterday and was replaced after 28 years as Foreign Minister by Mr Eduard Shevardnadze, the leader of the Communist Party of the southern Soviet Republic of Georgia. Mr Gromyko's departure from the foreign ministry reinforces the authority of Mr Mikhail Gorbachev, the Soviet leader, who is to meet President Reagan for a summit in Geneva from November 19 to 21. The presidency of the Soviet Union is of largely symbolic authority, but Mr Gromyko who is 75, remains a member of the ruling Politburo and will continue to have an influence on foreign policy. His successor as Foreign Minister, Mr Shevardnadze, 57, has been leader of the Georgian Communist Party since 1972. He has limited experience of foreign affairs but was elected to the Politburo on Monday, a rank which will give him authority in his new job. Mr Shevardnadze is regarded as an energetic and outgoing man



Mr Eduard Shevardnadze

Gorbachev, whom many diplomats had expected to take the job himself, said that the role of General Secretary of the party needed to be separate from the head of state in present circumstances. Since 1977, all three of Mr Gorbachev's predecessors combined the two positions. It is not clear what authority Mr Gromyko will have as President though the nominal powers of his position will be increased by his personal prestige and popularity within the Soviet Union as the man who conducted foreign policy for over a quarter of a century. Starting his career as a professional diplomat, suddenly promoted to be Ambassador to Washington at the start of the last war, Mr Gromyko only became a member of the Politburo in 1973 - 16 years after he became Foreign Minister. He had extensive authority over the formulation as well as the execution of foreign policy. A Soviet

whose career has followed a similar course to that of Mr Gorbachev. They have known each other for many years and Mr Gorbachev's home area of Stavropol is close to Georgia. In his speech nominating Mr Gromyko for the presidency, Mr

### Moscow and Washington set summit date

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

THE long-awaited summit meeting between President Ronald Reagan and Mr Mikhail Gorbachev, the Soviet leader, will take place in Geneva on November 19-21, U.S. officials said yesterday. The meeting will be the first U.S.-Soviet summit for Mr Reagan, who has had to deal with four Kremlin leaders since taking office in 1981. Disclosure of the planned meeting comes at a time when senior U.S. officials are still describing U.S.-Soviet relations as "glacial" and without any sign of a breakthrough in the Geneva arms talks - the main point of contact between the two superpowers. American officials yesterday differed over whether the meeting would be a full-scale summit, with a prepared agenda of decisions to be reached, or simply a "get-acquainted session" of the kind that Washington has suggested in the past. Experts in Washington said that the amount of progress likely to be made at the meeting would depend largely on the climate between Washington and Moscow established in the next four months. Mr Reagan, the first U.S. President in half a century never to have met his Soviet counterpart, official-

### Bonn set for fight over economic subsidy cuts

BY RUPERT CORNWELL IN BONN

THE WEST German Government yesterday outlined plans for a steady reduction in federal subsidies over the next four years as part of its determination to roll back the state's involvement in the economy and create more room for tax cuts. The scheduled cuts in subsidies were disclosed in documents accompanying the official draft budget for next year, but Herr Gerhard Stoltenberg, the Finance Minister, admitted that the goals would not be achieved without a tough fight. According to the ministry, subsidies paid by central Government are likely - contrary to intentions - to increase this year to DM 14.5bn (\$4.07bn) from DM 13.5bn in 1984. Thereafter, however, they should fall to DM 13.5bn next year and progressively to DM 11.1bn in 1989. The biggest subsidy cuts stem largely from factors beyond the Government's direct control. The strength of the dollar has permitted

### UK to axe capital gains tax on gilts

BY CLIVE WOLMAN IN LONDON

BRITAIN is to abolish capital gains tax on government securities and corporate bonds from July 2 of next year. The UK Treasury expects the change to result in a "significant increase in the long-term yield" from capital gains tax (CGT) because institutions will no longer be able to use capital losses on short-term holdings of government securities (gilts) to offset gains on other investments. The announcement by Mr Nigel Lawson, Chancellor of the Exchequer, created confusion in the gilt market yesterday afternoon. Leading jobbers (market-makers) suspended trading for 30 minutes. The prices of index-linked gilts rose by 1/4 to 3/4 of a point, but the high coupon stocks, after being marked up slightly, fell back again to their original prices.

The main victims of the abolition of the tax on gilts will be insurance companies. They are the largest group of gilt investors, owning nearly 30 per cent of outstanding stock. For every one of the last 16 years, they have been able to cut their total CGT bill by generating capital losses on their holdings of gilts. The technique exploited the exemption from CGT (imposed at a rate of 30 per cent) which has been granted since 1969 to gilts held for more than a year. Insurance companies would systematically sell all those gilts the prices of which had fallen after no more than 384 days to create a capital loss. This would then be offset against other capital gains, particularly on

### GEC lifts profits 8% to £725m

BY GUY DE JONQUIERES IN LONDON

BRITAIN'S General Electric Company (GEC), the UK's largest industrial group, yesterday reported that its pre-tax profits rose 8 per cent to £725m (\$843m) in the year to March 31. Turnover increased 6.7 per cent to £5.98bn. The results, which follow sharp falls in the share prices of most leading UK electronics and electrical companies in the past week, were at the lower end of most analysts' forecasts. GEC's share price closed unchanged yesterday at 168p. Pre-tax income from GEC's cash mountain, including revaluation adjustments on foreign currency holdings, rose by 25 per cent to £176m. Pre-tax profits from its mainstream industrial businesses grew by 5.4 per cent to £531m. The value of the cash mountain fell during the year from £1.55bn to £1.41bn. The drop largely reflected the £156m which GEC spent to buy

changes, which are being superseded by the fully electronic System X. GEC's small computer subsidiary also incurred a write-off. But there was a sharp improvement in the performance of A.B. Dick, its U.S. office equipment subsidiary, which moved out of losses in 1983-84. Problems with high-voltage switches reduced pre-tax profits at GEC's electrical equipment division to £42m (£49m) and profits in automation and control also fell to £48m (£52m). Results from power generation, medical equipment, consumer products and distribution and trading were all better than the previous year. GEC's exports from the UK rose by only £25m to £1.23bn although export orders received increased to £1.18bn (£867m).

Exports boost growth, Page 2

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### Lebanon attacks U.S. plan to isolate airport

By Nora Boustany in Beirut and David Lennon in Tel Aviv

LEBANESE LEADERS yesterday angrily denounced U.S. plans to isolate Beirut airport, while Israel warned that it would not in future help to bring about the rescue of hostages by the release of "terrorists" in Israeli prisons. Mr Rashid Karuni, the Lebanese Prime Minister, asked what guilt was borne by Beirut when the incident which provoked the U.S. action involved an American airliner hijacked from a Greek airport. He said that Washington was attempting to punish Lebanon "in spite of the release of the American hostages and in spite of the pledges made". The majority of the hostages freed on Sunday after a 17-day ordeal which followed the hijacking of a TWA flight from Athens, were yesterday on their way back to the U.S. The most recent opinion poll in the U.S. has shown overwhelming public support for President Reagan's handling of the crisis, but there has been a cool response to the plan to shut Beirut airport. General Moshe Levy, the Israeli Chief of Staff, said yesterday that 300 of the 735 mainly Shia prisoners held in Israeli jails would be transferred to Lebanon today or Thursday. Their release had been demanded by the hijackers of the TWA airliner and supported by the Lebanese Shia community. It is expected that the remainder will be freed within a week, although the U.S. and Israel continue to insist that no deal was struck with the hijackers. Mr Yitzhak Rabin, Israel's Defence Minister, accused governments of failing to take sufficient measures to protect their citizens. In a radio interview he said the TWA aircraft had been seized to apply pressure on Israel because it was an "easy target", unlike the heavily protected aircraft of the Israeli airline, El Al. "It is evidently difficult for the Shias and other terrorists to seize an Israeli plane and use Israelis as hostages in order to secure something from Israel. They preferred an easier target: an American plane, American citizens, who are not deployed against such acts in the way that Israelis and Israeli institutions are," he said. Mr Rabin warned that Israel would not again help to win the release of hostages by freeing prisoners in its jails. But he stressed that the freeing of the Shias had been planned before the hijack took

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## EUROPEAN NEWS

Patrick Cockburn in Moscow and David Buchan in London examine the end of the Gromyko era in Soviet foreign affairs

## Gorbachev and his men chart their foreign course

"THEY ARE all Gorbachev's men now," said a diplomat in the gallery of the Supreme Soviet as he heard the announcement of Mr. Andrei Gromyko's elevation to the Presidency and his replacement after 26 years as Foreign Minister by Mr. Eduard Shevardnadze, the Communist Party leader in Georgia.

Mr. Gromyko, 76 next month, retains some authority and much prestige but he has lost the unique power, dating from the early 1970s, to formulate and execute much of Soviet foreign policy by himself. The Foreign Ministry will no longer be a semi-independent fiefdom.

This would happen even if Mr. Shevardnadze had more experience in foreign affairs. The independent authority of Mr. Gromyko and Marshal Duri Ustinov, the Defence Minister who died last year, was rooted in early promotion by Stalin, consolidated during the war and much increased as President Brezhnev's health began to fail after 1975.

In the new climate in Moscow, Mr. Gromyko's role as a one-man institution was not sustainable. This makes somewhat irrelevant the question, posed by many diplomats yesterday, about whether the Soviet Union's Foreign Minister since 1957 had been kicked upstairs or will retain substantial powers over Soviet foreign relations.

From the moment Mr. Gorbachev became general secretary of the Communist Party last March, he has played a leading role in foreign policy. Immediately after President Chernenko's funeral, he began a long series of meetings with foreign leaders, and Mr. Gromyko's authority was already diminishing.

Mr. Shevardnadze is likely to be much more of a traditional foreign minister, concerned not the formulation of policy, but Mr. Gromyko, as President and a member of the ruling 13-member Politburo, remains important but it is unlikely that Mr. Shevardnadze will allow the substance of his authority to be pre-empted by his predecessor.

It is also significant that Mr. Shevardnadze is a member of the Politburo, in contrast to Mr. Gromyko who only joined the ruling body in 1973, 16 years after he took over the Foreign Ministry.

Eduard Amvrosievich Shevardnadze is 57 years old. He was born in Mamati, Georgia, on January 25 1928.

He attended Communist Party schools in Georgia and graduated in history in 1959 or 1960 from the Katsist Pedagogical Institute.

1948: Became a party member.

1953-56: First Secretary, Katsist Georgian Komsomol (Communist youth movement).

1963-64: First Secretary, Pervomayskiy district in Tbilisi city Georgian Communist Party.

1966: Full member, Central Committee, Georgian Communist Party.

1972: First Secretary and Full member, Politburo Central Committee, Georgian Communist Party.

1976: Full member, Central Committee, Communist Party of the Soviet Union.

1981: Candidate member, Politburo, the Central Committee of the Soviet Union.

Travels abroad: Algeria (1984), Austria (1974), Brazil (1980), Bulgaria (1974), Czechoslovakia (1981), Hungary (1975, 1981), India (1982), Portugal (1979, 1983), Tunisia (1980).

Mr. Shevardnadze's career is thought to have advanced thanks to his relative success in establishing "exemplary social order" within the Georgian Socialist Soviet Republic—that is stamping out banditry, black marketing, and protectionism.

Does the selection of a new minister signify a change in Soviet foreign policy? The basic tenets are likely to remain the same but there will be some changes in emphasis.

Despite the announcement yesterday of a summit between Mr. Gorbachev and President Ronald Reagan to be held in Geneva in November, there is an undercurrent of feeling in Moscow that amicable relations with the West are unlikely to be restored even after President Reagan ends his term in office. The brief amity between

the super powers is seen as an episode rather than the norm.

The relationship with the U.S. remains at the centre of Soviet foreign policy, and it was on this topic that Mr. Gromyko was for so many years the Kremlin's expert. But Mr. Gorbachev and the men close to him have somewhat changed the emphasis.

Since March, Mr. Gorbachev has given priority to consolidating Moscow's relations with its allies, notably in Eastern Europe. Mr. Le Duan, leader of Vietnam, received a particularly cordial welcome last weekend when he paid an official visit.

Greater emphasis is also being placed on the repair of relations with China, considerably warmer in tone (the Chinese have started calling Mr. Gorbachev "comrade") in recent months though without any real change in substance. The first Chinese Politburo member to visit Moscow for many years arrives later this month.

On no front does the Kremlin sound as if it is under pressure. The Soviet leaders are as nervous of President Reagan as they were during his first three years in office.

Despite the escalations of defence budgets and rhetoric, there is little conflict between the super powers or their allies.

There is real fear that America's Strategic Defence Initiative might shift the strategic balance against the Soviet Union. It might also lead to an escalation in Soviet defence costs, eating up capital investment that Mr. Gorbachev wants for the refurbishment of Soviet industry.

Diplomats in Moscow also note that Star Wars, since President Reagan announced the project in 1983, has presented the Soviet Union with immediate foreign policy gains. It has divided the West Europeans from the U.S. more than Pershing and Cruise missiles, while the military potential of the scheme remains hypothetical and long term.

So Mr. Gorbachev is in a relatively strong diplomatic position as he looks towards the Geneva summit with President Reagan. It is clear that, whatever his declarations to the Supreme Soviet yesterday about the need for the general secretary of the Party to concentrate on the economy, that the central role in Soviet foreign policy belongs to him.

Twenty-eight years in Mr. Andrei Gromyko's career separate the two pictures above. On the left, he is seen with Mr. Nikita Khrushchev, then Communist Party leader, in 1956, the year before he became Foreign Minister. On the right, he is pictured last year with President Ronald Reagan at the White House during a visit to the United States.



Twenty-eight years in Mr. Andrei Gromyko's career separate the two pictures above. On the left, he is seen with Mr. Nikita Khrushchev, then Communist Party leader, in 1956, the year before he became Foreign Minister. On the right, he is pictured last year with President Ronald Reagan at the White House during a visit to the United States.

## A consummate negotiator leaves the table

YESTERDAY'S nomination of Mr. Andrei Gromyko as president of the Soviet Union moves one of the most familiar diplomatic landmarks of the post-war period out of the day-to-day running of Soviet foreign policy.

The Gromyko era in foreign policy, which for a parallel one probably reached back to Talleyrand in early 19th century France, will not necessarily close this week. Just as he only really secured his hold on Soviet foreign policy-making several years after he became Foreign Minister in 1957, so he is likely to make his enormous foreign affairs experience felt—both as President and a senior Politburo member—for some time on his diplomatically un-

versed successor, Mr. Eduard Shevardnadze.

Yet, if separated from the job of party general secretary—as it now is once again—the post of President, or "chairman of the presidium of the Supreme Soviet," by itself, need carry only the largely ceremonial duties of meeting and greeting foreign heads of state.

It is thus a reward for a man who has advised every Soviet leader since 1957, conferred with every U.S. President since Roosevelt, a man who helped shape the post-war world and found the United Nations, and who then played a major part in negotiating the Soviet Union's superpower status with the U.S.

Mr. Gromyko is said to have let slip on a recent trip to

Helsinki that he was tiring of the endless travel involved in his past 28 years as Foreign Minister. Yet, during that time and even before, he has earned the sobriquet Mr. Nyet for the many Security Council resolutions he vetoed on Moscow's behalf. He has also been dubbed "Grim Grom" (grom being the Russian for thunder) for his dour style, alleviated by the odd wisecrack, often in the good, though heavily accented, English he learned in his 1943-46 stint as ambassador to Washington.

Public jibe

For his first 16 years as Foreign Minister, it is probable that Mr. Gromyko was more executor than formulator of Soviet foreign policy. Certainly, Mr. Nikita Khrushchev, the first party general secretary he served as Foreign Minister, treated him as such, making the public jibe at the unfortunate Gromyko that if he ordered his foreign minister to take down his trousers and sit on a block of ice, he would do so and sit there for a month. But by 1973, when Mr. Gromyko entered the Politburo, the policy-making inner circle of Soviet power, this surely changed.

The increased pace of Soviet

diplomacy in the 1970s, with the Salt arms negotiations and détente with the West, followed in the early 1980s by the international rows over the Soviet invasion of Afghanistan and the condoning, and perhaps encouragement, of martial law in Poland, the collapse of detente and the Reagan Administration's more confrontational policies, pushed Mr. Gromyko ever further into the limelight.

The ill health of successive leaders, Brezhnev, Andropov, Chernenko, also accentuated their dependence on their veteran Foreign Minister, to the extent that by 1983-84 some Western analysts wondered whether Mr. Gromyko was not really running Soviet foreign policy.

Whether Mr. Gromyko was hard or soft, inclined towards confrontation or conciliation, on relations with the U.S. and the West was never really clear in the Soviet collective form of government. But certainly he regarded East-West relations as Moscow's most important foreign policy concern.

Curiously, for a Foreign Minister of such lengthy tenure, Mr. Gromyko never visited Latin America or sub-Saharan Africa. His closest subordinates at the ministry were all specialists in U.S. or European affairs. It is thus plausible that his angry denunciations of the U.S. in recent years were in part bitterness at President Reagan destroying, in his eyes, what he had believed to be his main achievement—detente between the superpowers.

Mr. Gromyko's translation to the presidency removes a consummate negotiator from the bargaining table, though his influence may still be felt behind the scenes. Dr. Henry Kissinger summed up from his own experience the Gromyko approach as "patiently accumulated marginal gains until they amount to a major difference" and a reliance "on the restlessness of his opposite number to extract otherwise unachievable advantages." In this way was Mr. Gromyko able to exploit the short-run political pressure that afflict Western leaders much more than Soviet.

Steady rise

This patience, coupled with the self-effacement that led him once to tell a Westerner in search of personal anecdotes: "My personality does not interest me," served Mr. Gromyko well in his rise in the Soviet hierarchy. This rise was steady, part from a brief demotion in 1958-59 from deputy foreign minister to be ambassador to London in 1963-64 (after, it is said, he had been reprimanded for building a dacha at government expense).

But the remarkable aspect of Mr. Gromyko, in the diplomatic service from 1939 until this week is that he never developed a political base among key Soviet institutions—the party, the military, the KGB or heavy industry. Instead, he became an institution himself.

## Greece to verify Albanian frontier

ATHENS — a military delegation from Albania opened talks in Athens yesterday with Greek officials on verifying the border between the two countries to prevent frontier incidents, a government spokesman said.

The spokesman, Mr. Dimitri Maroudas, said the middle-ranking Albanian officers would discuss how to replace 40-year-old anti-tank obstacles that serve as border markers along the mountainous 100-mile frontier.

"Re-marking the border will greatly assist in preventing frontier incidents," said Mr. Maroudas.

Last November a Greek hunter was shot dead by an Albanian border patrol after straying across the frontier by mistake.

Although the border is heavily guarded on the Albanian side, about a dozen fighters from the self-isolated Socialist state cross into Greece every year.

A foreign office official said talks on defining the continental shelf between Albania and the Greek island of Corfu were planned.

"All these talks come within the framework of normalising relations with Albania," he said.

Greece's Socialist Government has worked hard to boost its economy, but it has failed to attract a Greek minority of over 250,000.

The military delegation's arrival marked the first official Albanian visit to Greece since Mr. Ramiz Alia took over as leader last April after the death of Mr. Enver Hoxha.

## Exports boost growth in chemicals

By John Davies in Frankfurt

THE WEST GERMAN chemical industry has shown further steady growth, boosted especially by export demand.

The sector, which employs 552,000 people, has been among the main contributors to the country's moderate economic growth over the past two and a half years.

Although production has already reached a high level, output in the first half of this year was 7 per cent higher than the same period last year. Export revenue was up as much as 10 per cent and domestic sales were up 4 per cent.

Prof. Frank said that West German chemical companies would step up their investment by 9 per cent this year to about DM 7.6bn (£1.9bn). A greater percentage than in previous years would be spent on building extra capacity.

Business has been good for plastics and synthetic fibres, he said, but sales of agricultural chemicals were hit by the hard winter and products for use in the oiling building industry were not doing so well.

## Aer Lingus 'beats strike'

By Our Dublin Correspondent

AER LINGUS, the Irish state airline, said yesterday that it had succeeded in carrying 75 per cent of its normal passenger load using leased-in aircraft to circumvent an all-out strike by its 250 pilots.

The pilots are seeking a fresh wages deal but the company cannot begin talks because the Government has yet to set guidelines for the negotiations.

The airline has leased 14 aircraft and crews from six countries to maintain its schedules in the face of the pilots' four-day action, at a cost of £4m (\$4.1m).

Aer Lingus returned a profit last year of £1m after three years in the red. Profit figures for 1985 are likely to be badly hit by the dispute.

## Europe space link-up to boost satellite business

By PAUL CHEESBRIGHT IN BRUSSELS

THE EUROPEAN Space Agency and the European Commission are seeking to boost the communications satellite business by offering a service for the high-speed digital transmission of long data messages.

Called Apollo, the new service is designed to provide facilities for a few senders, such as the British Library Lending Division and the German Patent Office, to transmit documents to clients with receiving stations.

Technology is being provided by the European Space Agency and co-ordination by the European Commission. Their combined investment is Ecu 5.4m (\$3m) over two years.

The satellite to be used is Eutelsat-1, which was placed in orbit last August.

The aim is to complement existing narrowband land and sea links. The Commission is expected to withdraw once the service is established.

## Pact with Austria on jail terms breaks new ground

By Our Berlin Correspondent

HUNGARY HAS concluded an agreement with Austria under which citizens of either country convicted of a crime in the other will be permitted to serve their sentences in their native country, the first such accord between a Warsaw Pact member and a non-Communist country, but does not cover political prisoners.

Dr. Tamas Ban, head of the international law department of the Hungarian Justice Ministry, said it was especially significant that Austria accepted "without reservation" the criminal procedures and sentences of Hungarian courts.

The agreement was a result of the increasing tourism between the two countries. International legal aid and extradition agreements, he said, were increasingly being supplemented by accords on mutual execution of sentences.

Dr. Ban said there were considerable differences in the way Hungary and Austria viewed foreign exchange, tax and customs offences. This problem was surmounted, however, as both countries had similar legal provisions. They pledged to execute the sentences passed on their citizens in the other country if their own criminal code had similar offences.

## Court move in Spanish 'Watergate'

By Tom Burns in Madrid

THE SO-CALLED Spanish Watergate, concerning alleged police surveillance of the Alliance Popular opposition party, could seriously embarrass the Socialist government of Sr. Felipe Gonzalez following a decision by a minor judge to pass to the Supreme Court all his investigations into the affair.

His action indicates that Judge Jose Maria Vazquez Noronha has uncovered sufficient evidence of possible illegality to merit pursuing the case. More importantly, transfer of the case to the Supreme Court paves the way for possible subpoenas of senior officials, members of Parliament and government ministers.

Under Spanish criminal law, only the Supreme Court has powers to serve writs on officials holding director general rank, on MPs and on cabinet members.

The judgement, gleefully greeted by the opposition, comes at a particularly awkward moment for Sr. Gonzalez who is due to announce government changes later this week.

Judge Vazquez Noronha has been taking evidence from Deputy Prime Minister Alfonso Guerra, Sr. Jose Barriola, the Interior Minister, Sr. Rafael del Rio, the chief of police, among others, following allegations by Alliance Popular of police spies at its party headquarters.

The kernel of the allegations is that Sr. Guerra, who is also the Socialist party's chief electoral tactician, masterminded a complex surveillance of the Conservative party and banking sources, which included telephone tapping, in order to obtain confidential party documents. The judge said in a statement that the matter was one of "extraordinary delicacy."

In a heated parliamentary debate at the end of May Sr. Barriola swore repeatedly "on his honour" that he personally had not authorised any illegal activities. Alliance Popular lawyers subsequently initiated a civil action before Judge Vazquez Noronha.

## Spanish oil agency

Spain unveils a new oil marketing agency today to comply with European Community anti-monopoly rules but multinational oil groups claim it is still a monopoly system, reports Reuter.

## Bush backs air boycott of Lebanon

By Our Paris Staff

MR. GEORGE BUSH, the U.S. Vice-President, yesterday defended Washington's efforts to organise an international boycott of Lebanon by air traffic.

He did not think the step would endanger the U.S. and French nationals still being held hostage in Beirut, he stated.

Speaking at a news conference in Paris after meeting President Francois Mitterrand and senior French ministers, Mr. Bush justified the U.S. Administration's move to end flights between New York and Beirut primarily on the grounds of ensuring passenger safety.

"We don't want Americans to fly in to airports which are less than secure—where travellers are offered less than the fullest protection against hijacking," he said.

The spectacle of the TWA aircraft being hijacked at one end of the world and while "commercial traffic was going in through the next door" was "not the way a civil airport should be run," he declared.

Mr. Bush stressed that the subject of international boycott of Beirut had not been raised in talks with French ministers. He did discuss "international collaboration" in efforts to fight terrorism without elaborating on any specific proposals.

Mr. Bush, who emphasised the "warmth" of his talks in Paris, is however, not likely to see the U.S. action followed up by similar steps from Paris.

Air France, in common with other Western airlines has for the moment suspended flights to Beirut.

But the French Government—which owns 28 per cent of the shares in Middle East Airlines—seemed little inclined to block MEA's landing rights in Paris, with officials stressing rather the more general effort France was making to combat air hijacking.

French public opinion remains pre-occupied with the fate of four French citizens captured in Beirut in March and May.

Mr. Bush said again yesterday that no "deal" had been struck with the kidnappers over the exchange of hostages against Shi'ites held by Israel.

Nonetheless, in France it is widely believed that the French hostages will not be released until the Shi'ite prisoners have crossed back into Lebanon.

Beirut despairs, Page 3

## EEC ministers to discuss five lines of research under Eureka

By DAVID MARSH IN PARIS

FRANCE HAS come up with a list of five sets of high technology projects which European ministers are to discuss here later this month to put flesh on the bones of the Eureka research programme.

Outlined in a document produced by the government-sponsored technology centre Cesta, and titled somewhat grandiosely "The Technological Renaissance of Europe," the projects group together proposals for joint efforts in the information technology, robotics, communication, biotechnology and new materials sectors.

Research Ministry officials emphasise that the ministerial meeting, provisionally set for July 17, to which technology ministers and perhaps also foreign ministers have been invited, would aim to come up with ideas for co-operation on a "pragmatic" basis.

The French idea to launch a full-scale ministerial session rather than a gathering of experts has raised some concern with the British Government that exaggerated expectations may be built up over what the meeting can achieve.

French officials, however, say



Mr. Bush: "Eureka and SDI not incompatible"

a high level meeting is necessary to give full official backing to the Eureka project, which leading European companies have already shown interest in and to map out a timetable for work.

The French-inspired Eureka programme was also endorsed yesterday by Mr. George Bush, the U.S. Vice-President. Speaking in Paris after talks with President Francois Mitterrand,

he said initial American ideas that Eureka was a "counter" to President Ronald Reagan's Strategic Defence Initiative (SDI) were unfounded.

Stressing that "there is no incompatibility between Eureka and SDI," Mr. Bush said, after discussing the two programmes in Paris, that "there are less differences (between the U.S. and France) over SDI than might have been felt immediately after the Bonn summit."

French officials say specific funding of Eureka projects is unlikely to be decided at the July 17 meeting. Finance, from a mixture of government, company and banking sources, would be set on a case-by-case basis.

The main areas of research, together with possible industrial partners from the 16 European countries who have been invited to the Paris meeting, have been set down by Cesta under the prosaic titles of the Euro-matic, Eurobot, Eurocom, and Eurostat programmes.

As a further sign of British interest in French co-operation, officials from the two countries are to meet in London next week to pursue bilateral talks in areas like electronics and computers.

## Polish stoppages report denied

By CHRISTOPHER BOBINSKI IN WARSAW

THE POLISH Government said yesterday that industry worked normally on Monday and emphatically denied reports by the banned Solidarity union of isolated stoppages in protest at meat price rises.

Solidarity had called for a one-hour strike in protest against a 10-15 per cent increase which came into force on July 1.

Mr. Jerzy Urban, the government spokesman, did, however, admit that attempts to initiate strike action had occurred at the Ursus tractor

factory outside Warsaw, the Lenin shipyard in Gdansk and at an agricultural equipment plant in Slupsk in the north. A handful of workers were involved but they soon abandoned the attempt to encourage others to strike, Mr. Urban said.

He denied Solidarity reports of much larger protest actions at the Lenin shipyard and stoppages in five departments at the Ursus tractor factory.

There had also been reports of protests at the Dolmel works in Wroclaw and the Pklor television tube factory outside Warsaw. Union sources also reported that four departments had protested at the Warsaw steel works, but Mr. Urban said that strike bombs had merely been set off in a number of places.

Mr. Urban added that at present the authorities were holding 195 political prisoners of whom 20 had been sentenced and the rest were awaiting trial.

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## OVERSEAS NEWS

## Israel hit by general strike called against austerity measures

BY DAVID LENNON IN TEL AVIV

A GENERAL strike paralysed the Israeli economy yesterday in protest against the new economic austerity programme which Mr Shimon Peres, the Prime Minister, said was essential "to prevent an actual collapse" of the economy.

The new measures adopted by the Cabinet on Monday include budget cuts, a devaluation, massive price increases, and a compulsory three-month wage and price freeze. The unions complained that the main burden of the economic recovery programme falls on the shoulders of wage earners.

The powerful Histadrut trades union federation warned that, though the general strike would end at 6 am today, selective strike action would continue during the week to press demand that the Government negotiate with the unions, rather than impose a wage freeze through emergency regulations.

A Histadrut spokesman said yesterday that, if the Government tried to implement the proposed wage cuts, the unions would "take individual action as they see fit" a clear warning that more strikes can be expected.

Mr Peres expressed sympathy for the position of the unions, but said that "we had to adopt

acute measures because there was no time left." If the new austerity programme had not been imposed, Israel would have run out of foreign currency and "we would have had to move to a regime of rationing because we wouldn't have money for food or spare parts."

The Premier noted that "inflation began skyrocketing again... and we reached a situation in which either we strike at inflation or it strikes at us."

After being brought down through voluntary wage and price agreements from a rate of over 20 per cent a month last autumn, to single figures earlier this year, inflation is now back to 20 per cent a month and more.

However, Mr Peres's belief that the new measures will bring inflation down to a "normal level" is not shared by all his Cabinet colleagues, seven of whom voted against.

The most strident in his criticism was Mr David Levy, a deputy premier and Housing Minister. He described the government action as "irresponsible" and the programme as "unjust." Mr Levy added: "I do not think that it will reduce inflation. I think we are entering an inflationary spiral."

## Peking waives some oil royalties in second round

BY MAURICE SAMUELSON

CHINA is trying to encourage overseas investment in the continued overseas investment in her offshore oil industry by waiving royalties on small fields developed in a second round of international bidding.

There will be no royalties on wells producing less than 1m tonnes a year, Chen Bingqian, of the China National Offshore Oil Corporation, announced in Peking.

The Chinese Government normally collects a 12.5 per cent royalty of annual production. But terms for second-round contracts have been relaxed because of the lack of major finds in the first round launched in 1982.

Despite \$1bn (£770m) of

overseas investment in the offshore search since 1980, few commercial discoveries have been made. Atlantic Richfield has made a significant natural gas find while oil has been discovered by France's Total and a Japanese concern.

Chen was speaking following the closure of Monday's deadline for bids to explore second-round blocks in the Pearl River Mouth Basin and the South Yellow Sea. The bidders comprise 23 companies, from 10 countries, grouped in nine consortia.

They include four British companies—British Petroleum, Shell Exploration, Cluff Oil and Tricentral.

## ANC blames S. African agents for Lusaka raid

By Patti Waldmeir in Lusaka

THE African National Congress (ANC), the leading nationalist group opposing white rule in South Africa, has said South African agents were responsible for a bomb blast late Monday night which damaged the organisation's headquarters in Lusaka.

There were no casualties.

The raid took place against a background of South African military incursions into black-ruled states in the region, including an attack on alleged ANC bases in the Botswana capital Gaborone three weeks ago in which 16 people died, and a weekend raid into southern Angola in which South Africa said it killed guerrillas of the Namibian guerrilla movement Swapo.

It came just over a week after the ANC ended what it called a "council of war" conference in the Zambian mining town of Kahwe, at which the organisation hinted at a possible increase in civilian casualties in its war against South Africa, noting that it would no longer be possible to avoid "soft targets" such as civilians in the fighting.

An ANC statement said the blast destroyed a steel gate outside the ANC's administrative offices in central Lusaka and shattered a number of windows. ANC guards on the premises fired on the attackers as they fled after placing the bombs.

The raid was being interpreted in Lusaka as a warning to the Zambian Government—which has maintained its firm support of the ANC at a time when South African pressure has forced other black-ruled states to expel ANC members—that Lusaka could be the next target of a Botswana-type raid.

AP adds: A South African military spokesman, declining to be named, denied any South African involvement in the raid.

## Urengo

Contrary to a report in yesterday's Financial Times, Urengo, the company controlled by the British, Dutch and West German governments, does not enrich uranium for military purposes.

Nora Boustany examines reaction in Lebanon to possible sanctions by Washington  
Beirut despairs as airport link is threatened

THE THREAT by President Ronald Reagan to put Beirut international airport out of action has filled the Lebanese with despair and prompted official indignation.

The shadowy underground Islamic Jihad organisation has threatened Washington with "nightmare attacks" if it retaliates over the TWA hijacking, and Mr Rashid Karami, Lebanon's Prime Minister, said he was considering ways of countering the measures ordered by President Reagan.

"Where is Beirut airport to blame in the hijacking of a TWA plane from an airport in Greece," asks Mr Rashid Karami (right), Prime Minister of Lebanon who, with other Lebanese officials, has reacted angrily to President Reagan's airport embargo.

When the release of 39 American passengers and crew was delayed last Saturday, the U.S. declared support for "Lebanon's Government, its stability and security," a statement which was perceived as a guarantee against retribution.

On Monday, however, Washington ordered legal and diplomatic action to isolate the airport. Lebanon's only international airport.

The move includes a ban on Middle East Airlines, Lebanon's flag passenger airline, and Trans Mediterranean Airways, Lebanon's cargo carrier, from flights to the U.S. Britain was yesterday reported to be considering similar measures.

MEA and TMS, which together



employ at least 7,000 people, have suffered tremendously in the past 10 years and run up huge losses because of Beirut airport closures and continued political instability. Mr Selim Salam, MEA chairman, yesterday told reporters that President Reagan's move has already prohibited the airline's twice weekly flights to the U.S.

Services at Beirut airport have been severely affected by recurrent fighting, and the infiltration of militia groups into its compound. However, plans for improvement and refurbishing have continued intermittently.

Beirut airport used to be the busiest in the Middle East, with daily connecting flights to the

director of the airport who has spent many sleepless nights reasoning with hijackers holding passengers hostage, complained that similar incidents occur elsewhere. "More than 300 people died after the Air India bomb, and there were the bombs at Tokyo and Madrid."

The Lebanese Government initially tried to prevent the commandeered TWA airliner, seized by Hezbollah Shiite activists on a flight between Athens and Rome from landing in Beirut, but relented when it sensed the lives of the passengers and crew were in jeopardy.

"International law prevents anyone from closing airports to stop a plane landing, especially when you know there is no fuel on board and the passengers are in danger."

Former President Camille Chamoun, a Maronite Christian, said there had been killings, kidnappings and injuries of Americans in Latin America, Spain and West Germany, yet Washington did not take action against those states.

Mr Akel Haidar, chief of the Shiite Amal movement's politburo, said America wanted to punish a whole people and country for the actions of one "small group." Mr Nabih Berri, leader of the Amal militia, took over negotiations on behalf of the hijackers early on in the June 14 hijacking to seek the release of some 700 Lebanese prisoners from an Israeli prison.

The Islamic Jihad, a shadowy organisation which has claimed credit for a series of murderous attacks on Western and American targets in Lebanon, cautioned that any American retaliation would make of the group "a nightmare that pursues them (the U.S. Administration) wherever they may be."

Christian and Moslem leaders alike have protested at President Reagan's planned move. Mr Sulaiman Franjeh, also a former Lebanese President, accused the U.S. President of being the first to encourage terrorism because after the Israeli invasion he gave the Israeli Government \$750m (£50m).

Despite the dismay expressed by a variety of Lebanese officials and popular apprehension about a shutdown of the airport, no one here denies that conditions at the airport have become intolerable.

Col Yassin Sweid, security chief at Beirut airport, refuses to go to his office there in protest at the lawlessness and uncontrolled interference of Druze and Shiite militia groups.

Various trips to the control tower showed rusty equipment and the effects of inefficient maintenance. The question is whether the American sanctions would punish those who deserve to be punished, or just contribute to Lebanon's downward spiral of despair and hopelessness.

## Pretoria study assails apartheid

BY JIM JONES IN JOHANNESBURG

APARTHEID is the root cause of racial friction, a study by an official South African Government think tank has concluded.

The four-year study, carried out by the government-financed Human Sciences Research Council (HSRC), says that Apartheid is a failure; claims that officially-inspired racial segregation has eliminated spontaneity in inter-racial relationships and has compounded suspicions and resentments; questions the Afrikaner Government's theories on racial differences; and warns that unless the Apartheid system is substantially demolished the country will continue to move towards violent racial confrontation.

Whether these conclusions

will form the bases for rapid shifts towards fully participative democracy is another matter. The Government regularly sponsors social research studies which are frequently designed to put the imprimatur of scientific objectivity on trends which are developing but which are opposed by politically powerful right-wing groups.

Nevertheless, the official stamp on the report will almost certainly strengthen the arguments of those calling for an acceleration of apartheid's demise though it will not silence white right-wing parties clamouring for a return to rigorous apartheid.

The report questions the very ground on which the South African apartheid state is built. It calls for a sharing of political

power and the guaranteeing of freedom of association, which has been illegal since 1968.

Implementation of state policy is equally as severely criticised by the HSRC researchers. Laws, the report finds, are veiled in secrecy and marred by lack of control, which creates opportunities for political suppression; do not "ensure equal treatment for all population categories"; and themselves represent a threat to the state.

On the more narrowly defined economic front, the HSRC says that all economic restrictions should be abolished and that a professionally run rather than politically controlled education system is needed in which segregation and inequality will cease to contribute to the deep segmentation of society.

## Black miners back after threats of dismissal

BY OUR JOHANNESBURG CORRESPONDENT

ALMOST ALL the 20,000 black miners who went on strike at three South African gold mines in protest against wage increases on Monday returned to work yesterday, following threats of dismissal by management.

Gencor, the mining house which manages the Kinross, Winkiehaak and Beatrice mines halted by Monday's unofficial stoppages, says it does not know why the men stopped work and is interviewing some strikers in an effort to determine grievances.

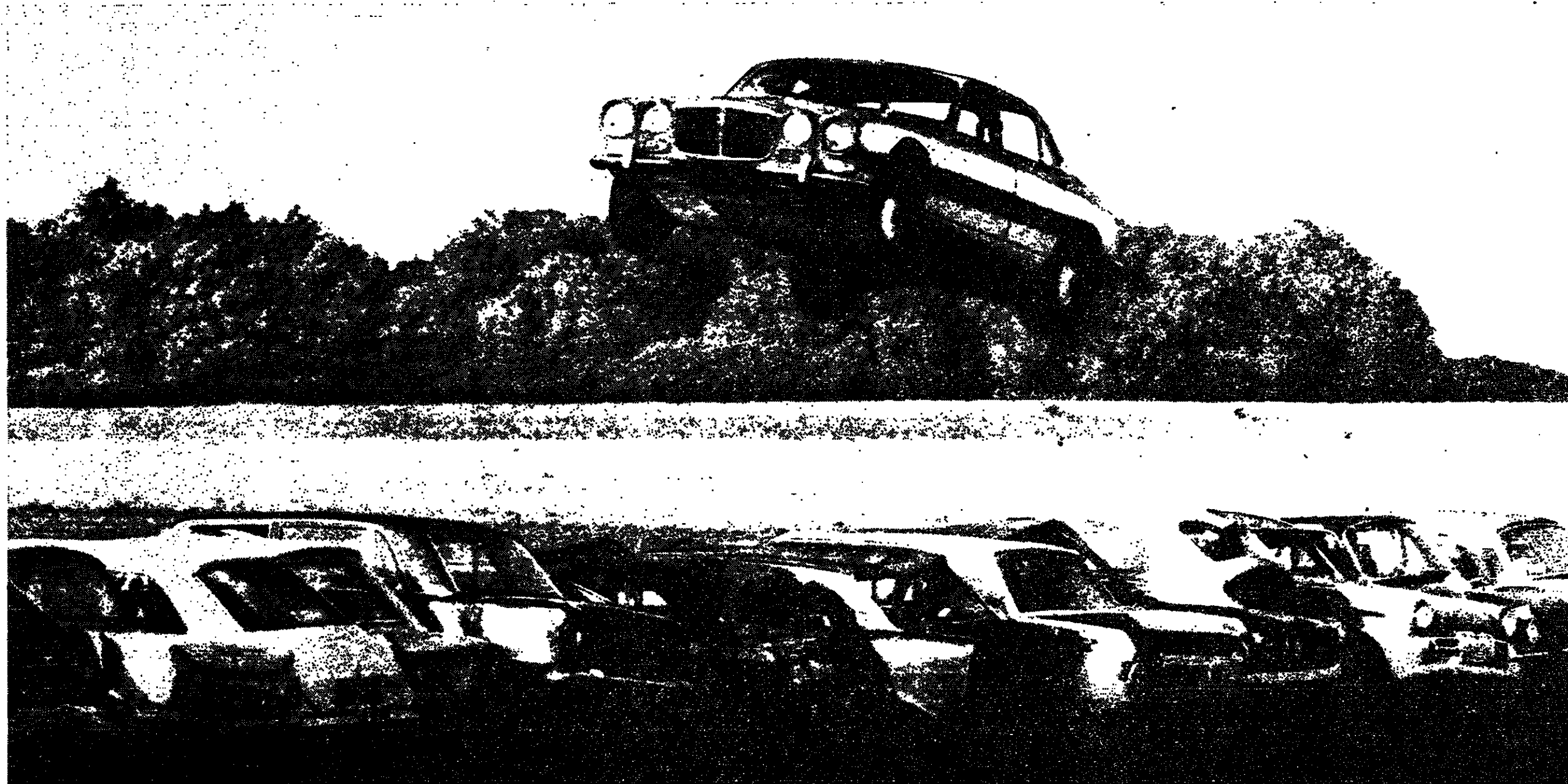
The three mines, and two others managed by Gencor which went on strike at the weekend, do not recognise the National Union of Mineworkers

(NUM) which is actively recruiting on the mines. As a result, management has had difficulty in negotiating with strikers.

The NUM says the strikes were in protest at unilateral wage increases implemented following failure to reach agreement with the NUM during this year's negotiating round.

The Gencor mines, which have been halted by strikes, all announced increases which, the NUM says, were below Chamber of Mines averages.

One man died during Monday's work stoppage at Winkiehaak and, at the Beatrice mine in the Orange Free State, armed police used tear gas to disperse demonstrators.



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## WORLD TRADE NEWS

## Exporters join forces to combat U.S. textile Bill

BY WILLIAM DUFFLORCE IN GENEVA

DEVELOPING COUNTRIES exporting some \$16bn (£12.3bn) a year of textiles and clothing to the U.S. have joined forces to lobby in Washington against the protectionist textile bill before Congress.

Last week 28 exporting nations sent letters to the chairman of the U.S. Senate finance committee and the House ways and means committee, the State Department and senior trade officials, urging them to "break the momentum of congressional support for the Bill."

In an aide-memoire accompanying the letters the exporting countries spelt out the inconsistencies and misconceptions about the impact of imports on the U.S. textile and apparel industry which they allege underlie the Bill.

The Washington embassies of the 28 nations will personally contact senators and congressmen before July 15, when new hearings on the Bill are expected to be held, in the hope of generating support for the Reagan Administration's recent appeal to Congress to defeat the Bill.

The campaign is being co-ordinated from Geneva by an inter-governmental organisation called the "programme of co-operation among developing countries, exporters of textiles and clothing."

Sr Felipe Jaramillo of Brazil, the chairman of the organisation, said yesterday that if the Textiles and Apparel Enforcement Act before Congress came into force, the U.S. would be in violation of its obligations under both the

General Agreement on Trade and Tariffs (GATT) and the multi-fibre arrangement (MFA), which governs the bulk of the world's trade in textiles and clothing.

Moreover, by abrogating the most-favoured-nation principle underlying all trade agreements, the act would cause irreparable damage to the multi-lateral trading system. Sr Jaramillo said.

The developing countries claim the Bill discriminates in favour of Europe, Canada and Japan, which would suffer less from the restraints imposed. Exporters from these countries would be more likely than domestic producers to fill the supply gap in U.S. textiles and clothing created by the enactment of the Bill, Sr Jaramillo said.

Discriminatory restrictions against developing countries have already led to a decline of 4 per cent in their exports to the U.S. in the period from October, 1984 to March 1985 compared with the corresponding period 12 months earlier, the aide-memoire claims.

During the same period U.S. imports from the EEC, the European Free Trade Association (EFTA) and Canada increased by 35 per cent, it alleges.

Talks of the future of the MFA are due to open here in Geneva on July 20. Sr Jaramillo said the Bill before the U.S. Congress was creating a "bad atmosphere" and affecting the credibility of the negotiations to find a new framework for the MFA.

## Sweden and Denmark seek road rail link

By Kevin Done, Nordic Correspondent, in Stockholm

SWEDEN hopes to reach agreement with Denmark this autumn on the construction of road and rail links across the Øresund, the strait separating southern Sweden from the Danish island of Zealand. It would be one of the biggest transport projects ever contemplated in northern Europe.

The road bridges and tunnels planned between Malmö in Sweden and Copenhagen, the Danish capital, and rail links between Helsingør, represent two of the major missing links in the transport network of northern Europe.

The project would be similar in scope to the Channel tunnel proposed between England and France, but has previously been blocked chiefly by political obstacles in Denmark.

The economic arguments in favour of the scheme, which has been under discussion for several decades, have strengthened significantly according to a joint report of the two Governments published recently.

The report favours the building of a 17 km, four-lane motorway link between Malmö and Copenhagen with a system of tunnels and bridges estimated to cost around SKr 3.3bn (£228m) (at January 1984 prices). The project would take between seven to nine years to complete.

The report also supports the construction of a five-km single-track rail tunnel to link Helsingør in Sweden and Helsingør in Denmark.

The cost of the rail tunnel is estimated at SKr 2.2bn with a building time of eight years. The report says the rail link should be financed through a system of tolls, while the rail tunnel costs would be covered by the railway administrations of the two countries.

The main pressure for road and rail links across Øresund is coming from Sweden. Mr Curt Bestrom, the Transport Minister, said yesterday: "Swedish industry has a great need of better links to the Continent; it must be able to compete."

### Short Brothers wins Thai aircraft deal

By Boonsong K'Thana in Bangkok

SHORT BROTHERS of Belfast has won a small but important contract to supply two 35-seat Shorts 360 turbo prop commuterliners to Thai Airways, Thailand's state-run domestic airline.

The Thai Cabinet yesterday approved the deal which put an end to a series of debates lasting over three months over the relative merits of unpressurised aircraft.

The contract, worth about £8.9m (£6.8m) is a triumph for Shorts as it may prevent the entry of other rival aircraft of its size to the Thai's airline feedline fleet, now comprising four smaller Shorts 330's.

Rival producers like De Havilland of Canada and Saab Fairchild of Sweden had competed fiercely to push the sale of the Dash-8 and the Saab Fairchild 440, both pressurised aircraft, the same size as the Shorts 360.

Meanwhile, McDonnell Douglas is launching a sales drive for its new advanced Tri-jet MD-11X aircraft to Thai Airways International, the country's national airline.

## BAe pushes the Alarm in West Germany

BY PETER BRUCE IN BONN

British and West German Government officials meet today to discuss intense lobbying by British Aerospace to sell its Alarm (air launched anti-radiation missile) to Bonn

INTENSE SALES efforts by British Aerospace and Whitehall appear to have delayed final West German approval for the acquisition of a \$380m (£292.3m) American anti-radar missile system, built by Texas Instruments, for the Luftwaffe and the air arm of the West German Navy.

The British are trying to sell a similar, more sophisticated system to the West Germans. To the irritation of some officials in the Bonn Defence Ministry, the British have been lobbying hard among the parliamentary committees which were expected to have given approval to procuring the U.S. Harm (high speed anti-radiation missile) before Parliament's summer break began this week.

British efforts to sell BAE's Alarm (air launched anti-radiation missile) to Bonn are likely to be intensified in talks being held here today between Mr Adam Butler, Britain's Minister of State for Defence Procurement, and Dr Manfred Timmermann, State Secretary in the West German Defence Ministry.

Harm and Alarm were both designed to seek out and destroy radar equipment attached to enemy anti-aircraft weapons systems; both are air launched. The American weapon, designed in the mid-1970s, has been tested by the U.S. Navy. Texas Instruments

has told Bonn it could start deliveries by the beginning of 1987. Alarm, however, is still being developed, having been chosen by Britain's Royal Air Force after it had studied Harm.

British Aerospace has said it would be able to begin supplying the West Germans by the end of 1987. The company says it has offered the weapon at some 15 per cent below the price quoted for the U.S. system. It is also prepared to make a full technology transfer to West German companies, including the sensitive homing head and navigation system designs. The U.S. while also offering local companies some work on the missile, is understood to be reluctant to part with its more sensitive technology.

By the time the British made their first major presentation on Alarm to the West German Defence Ministry in April last year, most officials showed little interest in it, arguing that the British weapon did not suit

precedent, the Ministry had written into its original operational requirement document the name of the weapon, Harm, as the one it wanted to buy, and thus far had convinced the relevant politicians that the missile was the only one of its kind available.

The visit of the Parliamentarians to Britain, however, resulted in BAE being invited back to the Defence Ministry to give another presentation, this time last December, and a further one in January 1985.

British Aerospace was by now reporting the content of these meetings back to the chairman of the defence committee, and complaining that Luftwaffe officers attending their briefings were not even bothering to ask questions about Alarm.

A further study trip to Britain, this time by Bonn Defence officials, to view what technology BAE had to show, also elicited few questions. This was also reported back to the defence committee.

In May, the Ministry produced a comparison of the two missiles for the committee but, to the dismay of the British side, the comparison was made on the basis of the original operational requirement document, which was tailored to the U.S. missile. BAE has made a formal sales proposal, valid to the end of this year, to the West Germans offer-

ing, through a complex formula, a 100 per cent "offset" arrangement asked for by the Ministry. West German companies would be given the work on the missile and any failure to cover investment would be met by purchases of German equipment from the UK.

This offer, made in late April this year, is understood to have been met with a similar American proposal. The Harm missile is Texas Instruments' first major weapons system, and it has won a \$522m order for 1,571 units from the U.S. Navy. The Germans want to order a further 866 missiles.

The alarm project was last discussed with the defence committee at BAE's stand at the Paris air show last month, and the British are drawing some comfort from the fact that a final decision has not been taken.

A prime worry for BAE is that in trying to stop a final procurement order going out for Harm, it may have angered senior or influential officials at the defence ministry, some of whom are very closely identified with the decision to order the American missile. The danger is that Britain may have soured relations with the ministry over a missile which came very late into the running while it is negotiating to sell other equipment, including the sea Skua missile to West Germany.

## Saab wins \$29m aircraft order

BY DAVID BROWN IN STOCKHOLM

SAAB SCANIA, the Swedish automotive and aerospace group, yesterday announced the sale of five SF-340 regional aircraft worth a total of \$29m (£22.3m).

The SF-340 is a joint venture between Saab Scania and Fairchild Industries of the U.S. So far, it has received 75 firm orders for the aircraft (10 since the start of June).

The major competitors to the five \$5.8m twin-engined craft sold to Kendall Airlines, a small regional service based in Wagga Wagga, Australia. Both are to be delivered in mid-1986.

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## UK soft loan for Jakarta

Mr Paul Shannon, Britain's Trade Minister, says that a substantial soft loan package is at present being put together to help British business prospects in Indonesia, reports Kieran Cooke from Jakarta.

Speaking in Jakarta at the end of a five-day visit to Indonesia, Mr Shannon said he had discussed the loan package with Indonesian ministers and it would be offered as soon as possible. He declined to say how much it would involve.

The British Government has recently come under pressure to offer such packages to help with contracts abroad and to compete with similar arrangements being offered by other countries.

Several British companies are hoping to win major contracts in connection with Indonesia's ambitious development programme particularly in the power generation, rail and air transport and shipping sectors.

## Japanese consortium to build fertiliser complex

BY OUR BANGKOK CORRESPONDENT

THE JAPANESE consortium of Chiyoda Chemical Engineering and Construction and Marubeni has won another main contract for a \$251m fertiliser complex in Thailand.

National Fertilizer (NFC), a Thai company 49 per cent owned by the Thai Government, has issued a letter of intent to the group for the complex's \$113m infrastructure and off-site facilities.

The Japanese group was chosen against Dragados y Construction, a Spanish group, which was the lowest bidder with an offer of \$111m. The Japanese bid was selected because the former's technical and financial proposals were superior, NFC's chairman, M.R. Chaturongkorn Sonakul said.

The Japanese group and Voest-Alpine of Austria have already secured an NFC contract to build an ammonia plant and two urea plants for \$74m.

The other main contract, including the construction of a sulphuric acid plant and a phosphoric plant, went to the Japanese-British group

of C. Itoh, Davy McKee (London) and Mitsui Engineering and Shipbuilding for \$64m.

The three contracts are expected to be signed in the next two months when NFC is expected to finalise the project's loan agreements and its plan to restructure the company's equity.

About \$190m of the project's financing will be supplied by credit, \$81m from NFC's own capital and \$80m loan from Japan's overseas economic co-operation fund.

NFC has been able to remove the contractors' demand that the loans be guaranteed by the Government. The project would guarantee itself, said the company chairman, adding that the same obstacle would also be removed in loan talks with OECD.

The complex, whose outputs will meet most of this agricultural demand, is scheduled to begin operation in December 1987. It will be located in the eastern seaboard province of Rayong, being developed into a major industrial town.

## Technimont wins share in \$80m U.S. project

BY OUR MILAN CORRESPONDENT

TECHNIMONT, the engineering subsidiary of Italy's Montedison group, has won a contract to handle design and implementation of a \$80m (\$61.5m) turkey project to build two polypropylene plants in the U.S.

The contracts, which call for the completion of plants in Bayport, Texas and Lake Charles, Louisiana by next year, were awarded by Himont the world leader in polypropylene production which is 50 per cent owned by Montedison and 50 per cent by Hercules of the U.S. The two plants will each have

capacity for the manufacture of 140,000 tonnes a year of polypropylene.

Montedison's recently announced plan to merge its American chemicals subsidiary with Compo Industries of Delaware is to be effected by combining the shares of both companies in a new Dutch-registered vehicle.

After the deal is complete Montedison will own 86.5 per cent of the Dutch holding company and Compo 13.5 per cent. The new company, like Compo, will be quoted on the U.S. Stock Exchange.

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NOTICE IS HEREBY GIVEN to the holders of the outstanding U.S. \$600,000,000 Undated Floating Rate Notes of The Kingdom of Denmark that, pursuant to the provisions of the Fiscal Agency Agreement of August 8, 1984 and the Terms and Conditions of the Notes, The Kingdom of Denmark intends to redeem on August 8, 1985 all of its outstanding Notes, at a redemption price equal to 100% of the principal amount thereof.

Payments will be made on and after August 8, 1985 against presentation and surrender of Notes with coupons due February, 1986 and subsequent attached in U.S. Dollars, subject to applicable laws and regulations, either (a) at the office of the Fiscal Agent in New York City, or (b) at the main office of Morgan Guaranty Trust Company of New York in Brussels, Frankfurt am Main, London and Zurich or Kreditbank S.A. Luxembourg in Luxembourg. Payments at the office of any paying agent outside of the United States will be made by check drawn on, or transfer to a United States dollar account with, a bank in the Borough of Manhattan, City and State of New York. Any payment made by transfer to an account maintained by the payee with a bank in the United States may be subject to reporting to the United States Internal Revenue Service (IRS) and to backup withholding at a rate of 30% if payee is not recognized as exempt recipient fail to provide the paying agent with an executed IRS Form W-9, certifying under penalties of perjury that the payee is not a United States person or an executed IRS Form W-9, certifying under penalties of perjury the payee's taxpayer identification number (employer identification number or social security number, as appropriate). These holders who are required to provide their correct taxpayer identification number on IRS Form W-9 and who fail to do so may also be subject to a penalty of \$50. Please therefore provide the appropriate certification when presenting your securities for payment.

Notes surrendered for payment should have attached all unexpired coupons pertinent thereto. Coupons due August, 1985 should be detached and collected in the usual manner. From and after August 8, 1985 the Notes will no longer be outstanding and interest thereon shall cease to accrue.

THE KINGDOM OF DENMARK  
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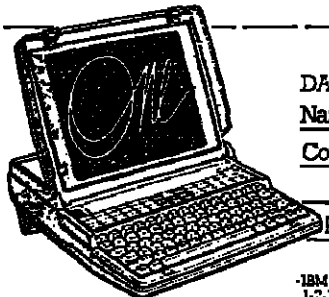
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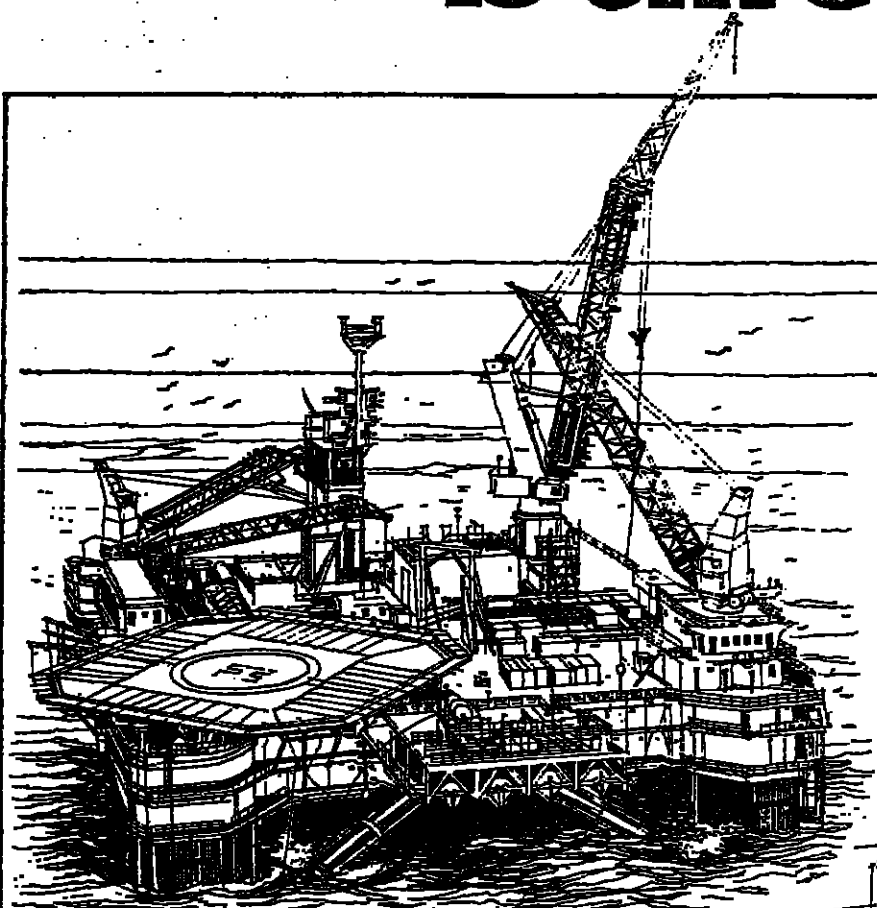
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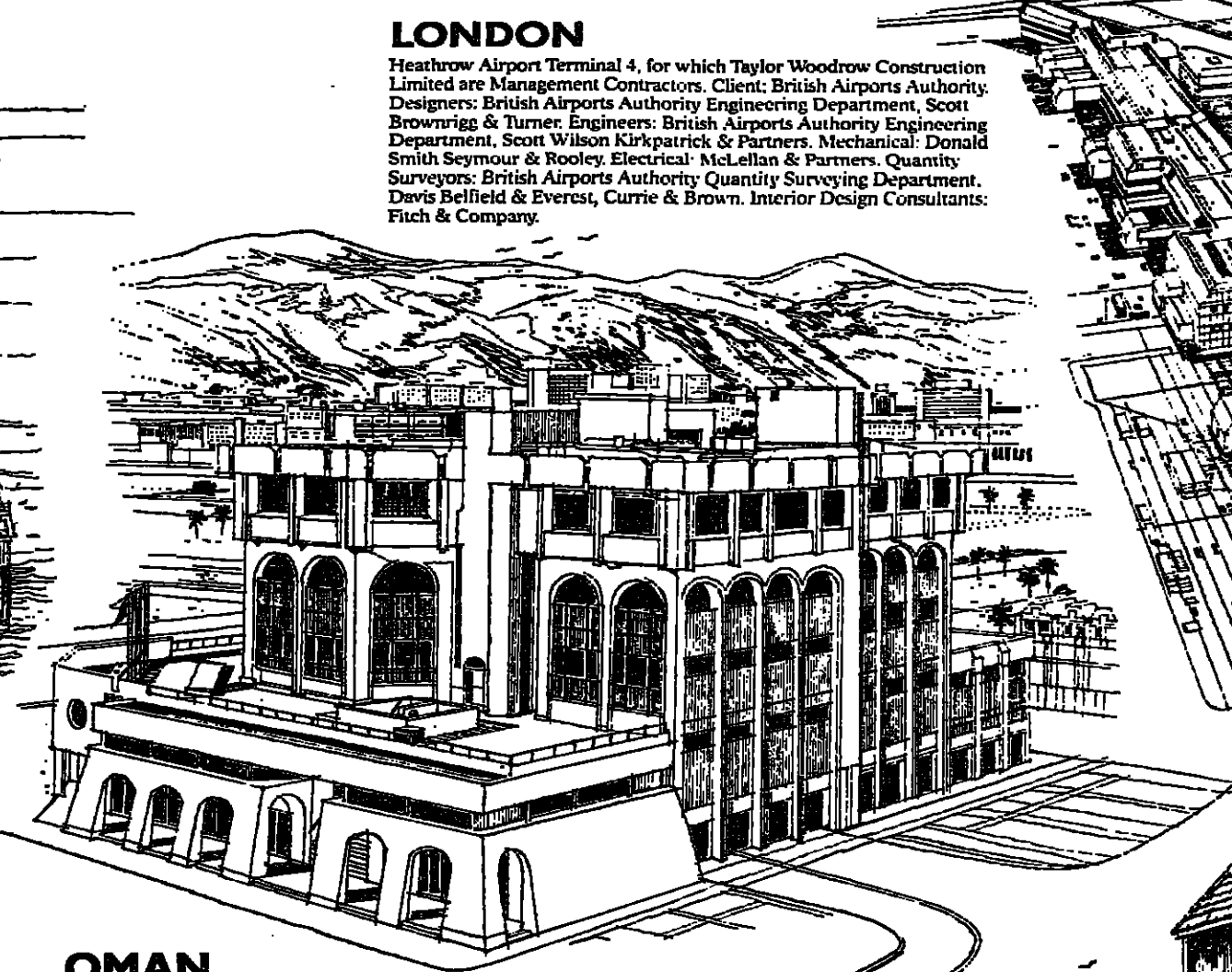


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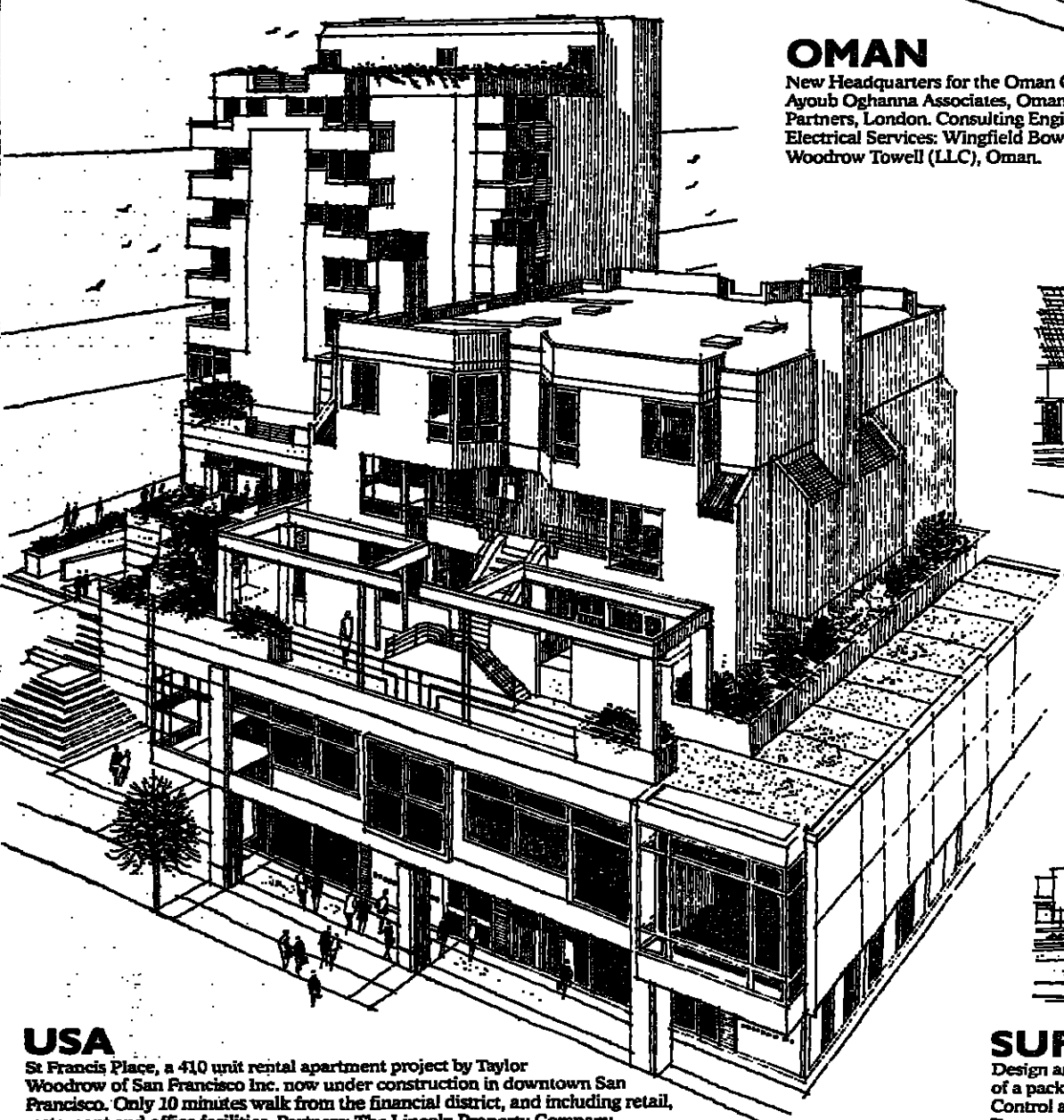
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MSV Stadvig, operated by Seaforth Maritime Ltd. an associate company of Taylor Woodrow, on behalf of Shell UK Exploration and Production, operators for a joint venture between Shell and Esso in the UK area of the North Sea.



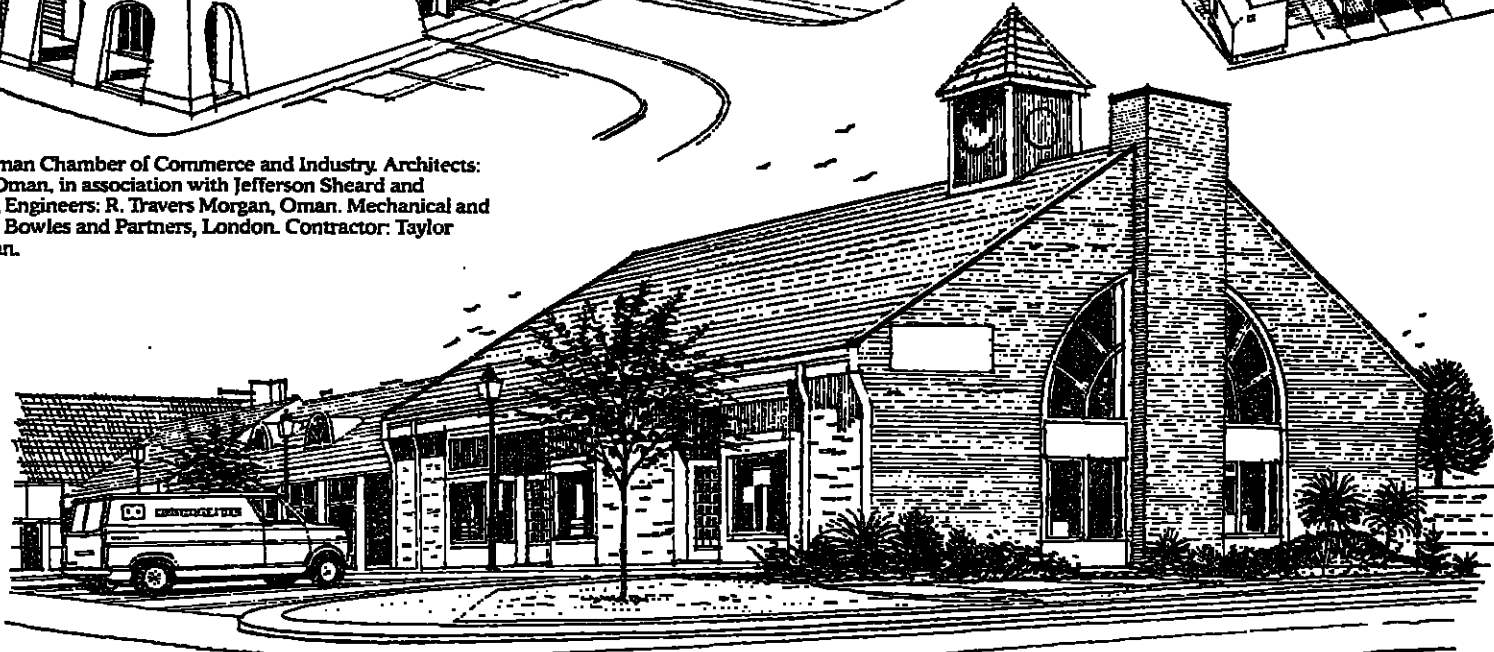
## OMAN

New Headquarters for the Oman Chamber of Commerce and Industry. Architects: Agoub Oghanna Associates, Oman, in association with Jefferson Sheard and Partners, London. Consulting Engineers: R. Travers Morgan, Oman. Mechanical and Electrical Services: Wingfield Bowles and Partners, London. Contractor: Taylor Woodrow Towell (LLC), Oman.



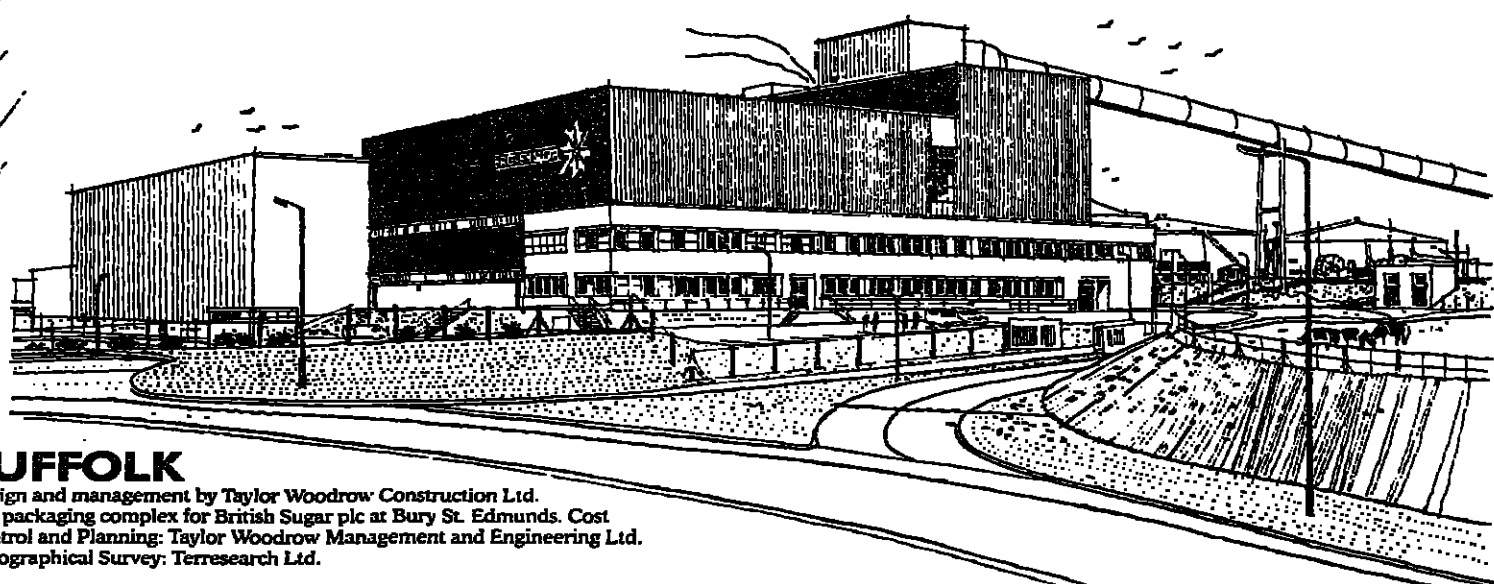
## USA

St Francis Place, a 410 unit rental apartment project by Taylor Woodrow of San Francisco Inc. now under construction in downtown San Francisco. Only 10 minutes walk from the financial district, and including retail, restaurant and office facilities. Partners: The Lincoln Property Company.



## CANADA

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Design and management by Taylor Woodrow Construction Ltd. of a packaging complex for British Sugar plc at Bury St. Edmunds. Cost Control and Planning: Taylor Woodrow Management and Engineering Ltd. Topographical Survey: Terresearch Ltd.

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## UK NEWS

## Summer sharpens focus on teachers' dispute

By David Brindle

COMPUTER SPECIALIST James Punnet will not be the only teacher to resign from the state system this term. He will, however, be one of the few who write to Sir Keith Joseph, Education Secretary, to say why.

In his letter to the minister, Mr Punnet says he is leaving his post at Martindale School, Hounslow, West London and is quitting the profession with mixed feelings of sadness, guilt and relief.

The sadness, he says, is at leaving behind colleagues and friends; the guilt is at letting down the school children; the relief, he tells Sir Keith, is "to be away from the penny-pinching, squalid scrabbling,

make-ends-meet game of behaviour that you have engendered in our schools."

Mr Punnet's bitter adieu, a copy of which is published in the latest issue of *The Teacher*, the journal of the National Union of Teachers (NUT), speaks volumes for a profession locked into seemingly intractable pay disputes both in Scotland and in England and Wales.

Today, one more attempt will be made to break the deadlock that still persists in London after 21 weeks of disruptive action in English and Welsh schools. Hopes are higher than for some time, but the odds on a settlement remain long.

There are two positive factors.

First, the meeting of the Burnham pay negotiating committee represents almost certainly the last chance to force a settlement before the summer school holidays and before the dispute is put on ice, to be reactivated in the autumn term.

The unappealing prospect of resumed conflict in September will concentrate minds on either side of the bargaining table. Most pressure, however, will be on the unions, which face the considerable problem of maintaining the momentum of the dispute over two months of inactivity.

The NUT's best ideas on this - keeping up pressure on MPs, promoting "parent support groups" and

maintaining a summer-long vigil outside the Department of Education and Science - seem unlikely to inspire either teachers or the public.

The second positive factor is that today's meeting will see some fresh faces and fresh thinking on the employers' side. As a result of the May county council elections, Labour has ousted the Conservatives from control of the Burnham management panel, which now comprises Labour 13 seats; Conservatives eight; SDP-Liberal Alliance and Independents two each.

The Labour Party machine (not without influence in the higher reaches of the NUT, the dominant

union) has been in overdrive in recent days in the search for a way out of the dispute.

Significantly, however, Mr Giles Radice, Labour's education spokesman, yesterday released the text of a letter he had sent to Mrs Nicky Harrison, who is tipped to become the Labour leader of the employers' side. He said: "The voters in the county elections in May clearly signalled that they want a quick settlement to the highly damaging teachers' pay dispute."

So there is pressure for a settlement and there are management negotiators apparently ready to dig deeper into their pockets in order to achieve it.

## Hopes rise for peace in Britain's schools, but odds on a pay deal remain long

## Ford settles part of copyright dispute

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

FORD has reached an out-of-court settlement with two of the 12 car body panel manufacturers which it claims are infringing its copyrights.

The group said yesterday that the two companies had agreed to a court injunction and in future would not produce complete panels, bumpers, radiator grilles, fuel tanks and badges based on Ford designs. The companies had also agreed not to infringe Ford's copyright in respect of these parts for future models.

The agreement does not prevent the companies from continuing to manufacture their own corrosion part-panels to fit Ford cars.

Ford said the two companies had agreed to pay a sum by way of costs and damages.

The group's legal action against the other body panel producers is scheduled to be heard on November 18. It is now likely there will be talks aimed at settling the outstanding claims before then.

Ford has meanwhile, had several meetings with the Department of Trade and Industry and the Office of Fair Trading. This follows a monopoly and Mergers Commission report which suggested that Ford was acting anti-competitively and against the public interest by refusing to grant licences for the production or sale of body panels.

The commission concluded that, in essence, without a change in the laws on copyrights, no powers existed to compel Ford to grant licences and preserve competition. It recommended that protection under the copyright laws should be limited to five years instead of the current 15 years.

Ford has argued during its meetings with the department and the Office of Fair Trading that five years would not allow enough time for manufacturers to recoup their initial investment in the original design and development of a new car and also to earn a fair reward for innovation.

## Austin Rover to sell cheaper Maestro model

By Our Motor Industry Correspondent

AUSTIN ROVER, the BL volume cars subsidiary, hopes to lift sales of its Maestro hatchback with a budget-priced model, the City, to be introduced on August 1 - just in time for the peak selling period for new cars in the UK.

The Maestro City will be £4,855, or £439 cheaper than the current bottom-of-the-range version, the Maestro 1.3, which costs £5,294.

The price is highly competitive with the main rivals, Ford's three-door Escort 1.3 at £5,123 and the three-door Vauxhall Astra 1.3 at £4,874. However, there are cheaper Escorts and Astras available.

When the Maestro was launched in March 1983, the company hoped it would take over 5 per cent of total UK new car sales. Last year 83,072 Maestros were registered for a 4.63 per cent share. This year, the car has had to compete with Austin Rover's new bodied Montego and its market share has fallen to 2.9 per cent.

## Thatcher describes Milan summit as 'temporary setback'

BY IVOR OWEN

BRITAIN'S failure to obtain majority support at the EEC summit in Milan for its attempt to lead the way in giving the Common Market new momentum was described as a "temporary setback" by Mrs Margaret Thatcher, the Prime Minister, in the House of Commons yesterday.

She hoped it would be "fully repaired" at the next meeting of EEC heads of government and heads of state in Luxembourg in December. Mrs Thatcher went to considerable lengths to insist that the experience of being voted down in Milan had not caused her to lose her temper. She implied that any impression that she had been engaged in something approaching a verbal brawl with her EEC colleagues was entirely erroneous.

Her main purpose, she explained, had been to secure support for a programme of action which would have enabled the EEC to surge ahead, particularly through the completion of the internal market, without having to consider amending the Treaty of Rome.

More in sorrow than in anger, the Prime Minister lamented: "I think sometimes a lot of rhetoric spoken about Europe gets in the way of practical proposals."

Mr Neil Kinnock, the Labour leader, branded the Prime Minister's performance in Milan a "clumsy failure." He said it was absolutely plain that after "six years of bluster" she had not succeeded in getting one tangible advantage for Britain.

He suggested that Mrs Thatcher's dismissive attitude to the inter-governmental conference - which is to consider some of the key issues she believed could have been resolved at Milan by acceptance of the British initiative - could lead to more difficulties.

Mr Kinnock called on the Prime Minister to attend the conference herself. He warned of the danger that changes in procedure which were not in Britain's interests and did not require amendment of the Treaty of Rome might be adopted by a further exercise in majority voting.

His insistence that it was essential that the Prime Minister should attend the inter-governmental conference brought no immediate response, although the Prime Minister admitted that she was no match for Mr Kinnock in the "emission of hot air."

Later Mrs Thatcher emphasised that it was not a conference of heads of government and announced that Sir Geoffrey Howe, the Foreign and Commonwealth Secretary, would represent Britain.

She emphasised that decisions taken at the inter-governmental conference would have to be reported to the Luxembourg meeting of heads of government in December. Any proposal involving change in the Treaty of Rome could only go forward if given unanimous consent.



Mrs Thatcher: 'rhetoric about Europe gets in way of practical proposals'

Mr Roy Jenkins, former president of the EEC Commission and a Social Democrat MP, asked why the Prime Minister had been so upset at the Franco-German takeover of many of the ideas advanced by the British Government.

Amid laughter, he said: "If one wants to make progress, it is highly desirable that other parties should put forward one's own ideas believing them to be theirs."

Clearly not amused, Mrs Thatcher retorted: "It seems strange, if they are already on the table, to duplicate them."

In sharp contrast to their vociferous protests 24 hours earlier about the outcome of the Milan summit, most of the anti-Marketisers on the Conservative backbenches adopted a restrained manner when questioning the Prime Minister.

Even Mr Teddy Taylor, a strong critic of the EEC, seemed less pungent than usual when he inquired if there was any likelihood of Britain being forced to apply VAT to a new range of commodities, including food, electricity and gas, through a further instalment in harmonising taxation.

Mrs Thatcher assured him, "I do not believe that the harmonisation of taxation is necessary for the completion of the internal market. We, therefore, shall resist it with all the power and strength at our command."

As for political union, she underlined her preference for what was best described as political co-operation and went on to declare, "I am absolutely against a federal Europe."

She added: "So, I believe, are the overwhelming majority of our partners in Europe, and there is no question of it."

To later questions, Mrs Thatcher insisted: "It is in Britain's interest to be in the Common Market, to secure the full working of the treaty."

The EEC, she added, "enhances the influence of Europe throughout the world."

## Halley's comet probe launched

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE 840m GIOTTO spacecraft, built by British Aerospace and a team of European aerospace companies, was successfully launched yesterday on its long flight round the sun to intercept Halley's comet as it approaches the earth for the first time in 76 years.

The spacecraft was initially put into a "parking orbit" round the earth, after being launched from the French space base in Kourou, French Guiana, by an Ariane rocket launcher.

The next critical stage comes this evening, when the spacecraft is due to be fired into its final path away from earth and round the sun on its long 450m miles journey to intercept Halley's comet next March 13.

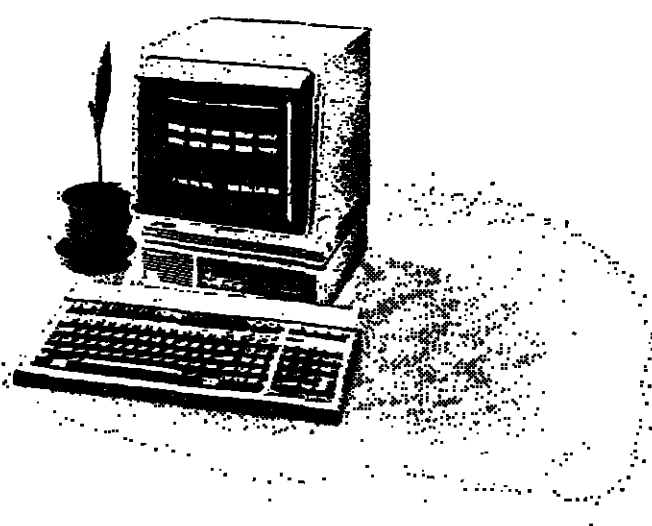
Halley's comet, named after the English astronomer Edmund Halley, only swings past the earth every 76 years. If the present attempt to intercept it fails, no other opportunity will occur until the year 2061. No back-up satellite is available.

The spacecraft is carrying experi-

ments from a large number of European universities and other academic institutions to study the gases, dust and plasma in the comet's nucleus. This information will be sent back to earth for three to four hours before the spacecraft is itself destroyed by bombardment from debris in the comet's tail.

Yesterday's launch was described as perfect. Mr Geoffrey Pattie, UK Aerospace Minister, said the industrial team involved had "performed magnificently against a most demanding specification."

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## UK NEWS

## Global loss of £85m for UK insurers

BY ERIC SHORT

THE FULL extent of the recession in trading conditions in the UK insurance market was highlighted yesterday when the British Insurance Association (BIA) disclosed that UK insurance companies last year recorded a trading loss of £85m on worldwide general insurance business. It was their first loss for decades.

Underwriting losses – the excess of claim payments and expenses over premiums – in the UK doubled in 1984 from £336m to £686m – some 15 per cent of premiums received. And 1983 was considered to be a very poor year for insurance, in the UK.

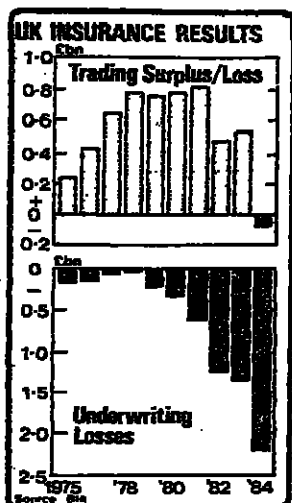
Commentators have tended to highlight the deep recession in the U.S. insurance market when discussing last year's results for UK composite insurance companies. The BIA indeed confirms this picture with U.S. underwriting losses up from £491m to £710m, reflecting the weakness of sterling at the end of last year as much as the continued decline in trading conditions.

In contrast, the decline in the UK has tended to receive less attention. Nevertheless, the U.S. and UK results, taken together, accounted for much of the 60 per cent rise in worldwide underwriting losses last year from £1.35bn to £2.2bn.

In previous years, the investment income generated by the premium cash flow and the strong underlying reserves of insurance companies has been more than sufficient to cover the rising underwriting losses. But although investment income rose by 12 per cent in sterling terms from £1.88bn to £2.11bn in 1984, it failed to cover the higher losses.

Thus, for the first time since the BIA started to maintain records of its member companies, the industry produced an overall trading loss. The BIA put forward several factors contributing to the poor results.

- Widespread storm damage in the early months of the year cost £175m in exceptional weather losses.
- The dry summer exacerbated the number of subsidence claims which rose to £140m – a higher figure in real terms than payments made following the dry summer of 1978.
- The social problem of rising numbers of thefts resulted in claims from private dwelling rising 17.5 per cent to a record £201m.
- Fire damage in 1984 totalled £54m – the second highest figure recorded.



● A strong rise of around 7½ per cent in claims on the motor insurance account – a rise that the industry cannot attribute to any single factor – together with a jump in the size of claims made.

Mr Ron Bishop, outgoing chairman of BIA and a former chief executive of Phoenix Assurance, put his finger on the root cause of the recession when he discussed the inadequate premium rates charged by companies on almost all classes of business in the UK. This is also the primary cause of the U.S. recession.

The net effect was that underwriting losses on UK fire and accident insurance business doubled in 1984 from £218m to £463m – some 14 per cent of premiums, while losses on the motor account climbed from £118m to £222m – 12 per cent of premiums.

Mr Bishop was not optimistic about this year's results from UK companies. The year had got off to a bad start with repeated severe weather losses in the UK – estimated at around £145m – from the big freeze-up in January-February, coupled with similar adverse weather losses in the rest of Europe and in North America.

However, he saw some favourable trends emerging in the industry. Premium rates were being substantially increased in both the U.S. and UK without any significant loss of business. There was a better balance between the demand for insurance services and the capacity available, as certain insurers pulled out of the market.

Lex, Page 14

## Gold and currency reserves up \$340m

BY PHILIP STEPHENS

BRITAIN's official reserves rose by \$340m in June as the Bank of England took advantage of sterling's strength to buy dollars on foreign-exchange markets.

The Treasury said yesterday that after taking account of overseas borrowing and repayments, the underlying increase in the Bank's gold and foreign currency holdings was \$124m.

Reserves stood at \$14,316m at the end of the month. They have been rising steadily since the pound's recovery in February, although the annual revaluation of the Bank's gold and foreign-currency holdings in March gives the impression of a fall since the beginning of the year.

The authorities do not comment on the level of intervention, and the figure for the underlying movement in the reserves may include other transactions as well as direct intervention.

It is thought, however, that the Bank has now more than recouped all of the foreign currency it sold during the concerted intervention against the dollar earlier in the year, and has made a useful profit in the process.

The perceived success of that intervention has also prompted a shift in the Treasury's attitude. It now appears concerned to arrest the steady decline in the reserves since 1979 to put it in a stronger position should further intervention be necessary.

Capital issues on the UK equity market totalled £516m in June, down from £664m the previous month, according to the latest statistics from the Bank of England.

But the value of new issues is still running well ahead of the level in 1984. For the first half of this year they have totalled £3.7bn, more than double the amount in the same period of 1984.

## Rescue effort for Lloyd's syndicate fails

By John Moore

A RESCUE plan arranged by Willis Faber, the insurance broker, to help underwriting members of Lloyd's facing a £20m loss foundered yesterday. Only 27 members out of 243 affected by the losses had indicated that they would accept the offer, which closed yesterday.

While Willis Faber thought that the level of acceptance might rise, Miss Heather Thomas, one of the executives looking after the affairs of the underwriting members, said last night: "The level of support is not encouraging."

So far 168 underwriting members have instructed lawyers Clifford Turner to consider the implications of the offer and to mount any necessary legal action. The offer needed 100 per cent acceptance.

Problems concern Lloyd's insurance syndicate number 895, formed of the members including tennis personalities Mark Cox and Virginia Wade. Underwriting members have been facing losses of up to £20m.

## Consultants sought on tunnel project

By Duncan Campbell-Smith

CONSULTANTS are being sought by the Government to help the joint working party of British and French civil servants which will be required late this year or early in 1986 to award a mandate for the building of a fixed link across the Channel.

Firm bids for the mandate, which must be submitted by October 31, will be subject to detailed scrutiny on a range of financial and technical issues.

The Government also intends to appoint a merchant bank to advise it on the viability of the bidders' financing plans. Applications for this role are invited by July 10.

Plans for a Channel tunnel were presented yesterday by the Channel Tunnel Group (CTG), the UK joint venture between National Westminster Bank and five of the highest construction companies in Britain. It was accompanied for the first time publicly by executives of the French joint venture which now comprises the other half of the Anglo-French tunnel consortium.

## COAL BOARD TO RECONSIDER DISMISSALS OF 203 SCOTTISH MINERS

## Productivity link likely for pit pay

BY JOHN LLOYD, INDUSTRIAL EDITOR

THE NATIONAL Coal Board (NCB) is likely to make increases based on productivity the major part of its pay offer to the National Union of Mineworkers (NUM) later this year – marking a sharp break with tradition in the industry.

It will, however, reconsider the position of the 203 miners sacked in Scotland, who make up almost one third of the 622 sacked throughout the UK for offences committed during the year-long pit strike.

Mr John Loudon, the new Scottish area director, has sent a dossier on the sacked Scottish miners to the National Coal Board's headquarters in London and is to hold a formal meeting with Mr Mick McGahey, the Scottish area president, within the next two weeks.

There are hopes within the Scottish NUM leadership – which look to be well founded – that this review may result in some reinstatement.

In discussions at senior coal board levels on pay, the line emerging is that a nil basic pay increase would be impossible to defend – but that it should be considerably less significant in a final pay package than productivity rises.

No final position has yet been taken. But it seems probable that Mr Ian MacGregor, the board chairman, will tread the same path as he did when chairman of the British

Mr Neil Kinnock (right), leader of the Labour Party, yesterday described talk by Mr Arthur Scargill of further industrial action in the coal industry as "fantasy." Mr Kinnock made no reference to Mr Scargill's call for a future Labour government to sack all National Coal Board pit and area managers involved in opposing the NUM during its strike. Miners, he said, had to live with "the extra power now

held by the board." Common sense to prevent further defections was vital. The Labour leader also rejected Mr Scargill's demand that the party should commit itself to freeing all miners jailed for offences connected with the strike. Mr Kinnock's statement was seen as an attempt to limit any damage caused by Mr Scargill to the Labour candidate's prospects in tomorrow's by-election in Wales.

Steel Corporation in downgrading national wage settlements in favour of locally bargained productivity deals.

Both these issues were the subject of debate at the NUM's conference in Sheffield yesterday – a debate which ended in anger and emotion over the "victimisation" of the 622 sacked men.

The Nottinghamshire delegation, which alone voted against a Kent area motion calling for a special delegate conference in October to "decide what action will be taken to bring about their reinstatement," was the object of vituperation.

Mr Arthur Scargill, president of the NUM, made clear that, in accepting the Kent motion, he anticipated no automatic industrial action in October.

The motion also drew a distinction between those miners in jail

and those at liberty, thus limiting its application to those not convicted of serious crimes – although NUM policy remains one of seeking the release and reinstatement of all dismissed men.

The rifts over the conduct of the strike surfaced when the conference debated a motion from Leicestershire – one of the fields which worked during most of the strike – that the union's national executive "consult the membership in national ballot form on pay and policy." The strike, which ended in March, had been called without a national ballot.

Mr Terry Hughes, a young Leicestershire miner, told an increasingly noisy hall that "the history of the past 12 months reveals quite conclusively that the strike did not receive the support of the membership."



When cries of "scab" rose from many delegates, Mr Hughes called back: "I will give you a definition of a scab: it is part of the healing of the wound. If I am part of that healing I am proud."

Mr Scargill interjected from the chair: "We are not festering today."

Mr George Bolton, the Scottish area vice-president, won applause with a speech which sought to stress the importance of the ballot vote to the NUM and thus to reconcile both sides.

He argued: "I don't accept that because the Tories are for something I am automatically against it. The ballot vote was something our forefathers fought for and won."

## Government drops wave power from energy options list

BY IAN HARGREAVES

THE GOVERNMENT is to support research into windmills, solar-heated homes and energy from waste, but will ditch its £17m programme of research into wave power.

Mr David Hunt, the energy minister responsible for renewable energy sources, said yesterday that the Government's policy would be to support the winners in non-conventional energy options. "We are concentrating our resources on the most promising options."

This year, the Government plans to spend a total of £14m on research into renewables, or about £20m if various EEC-backed programmes and work carried out by the Government's energy efficiency office is included.

Mr Hunt's statement came in response to a report from the Government's Advisory Council on Research and Development, which was asked earlier this year to carry out a review of Britain's efforts in the renewables field. It made six recommendations:

Passive solar energy, which involves modifying building forms and fabrics to permit the tapping of solar energy, "has considerable potential to reduce heating and lighting costs in buildings. It is economically attractive," the council says.

Biofuels. The council says there is much potential in using farm, industrial and domestic wastes as a fuel source. It also wants more investigation into the use of wood as a biofuel.

Geothermal aquifers. The attempt to locate hot spots in sedimentary basins – has not been successful – and the council recommended rejection of a proposal to drill boreholes for a small heating scheme in Southampton.

Geothermal hot dry rocks. The technology of boring deep holes and artificially cracking rocks in order to circulate water and generate steam. The council says a research programme in Cornwall should continue, but that international collaboration should be sought.

Wind power. The council endorsed the Government's support for a horizontal-axis windmill on the Isle of Orkney in Scotland and a vertical-axis machine at Carnarthen in Wales. This is the area of highest Government spending.

Wave power. After ten years and £17m of spending, the council thinks Britain has shown that this technology should be placed in the "reject" category. The Government should, it said, continue to keep an eye on developments overseas. One of those, in Norway, involves a UK design.

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FT6



The Annual General Meeting of Shareholders was held on 12th June 1985 under the Chairmanship of Mr. Charles ZVIAK, Chairman and Chief Executive Officer.

The accounts for the 1984 financial year were approved at the meeting. They show:

- Consolidated Sales of 15804 million Francs;
- An operating profit of 1 657 million Francs; and
- A consolidated net profit (excluding capital surpluses) of 729 million Francs.

Net profit per share came to 154.32 Francs.

Mr. ZVIAK confirmed that the Group would continue to base its expansion strategy on:

- 1) **Innovation:** L'OREAL has made the world's largest budgetary commitment in the field of cosmetics research: 398 million Francs in 1984, equivalent to more than 3% of cosmetics sales;
- 2) **Internationalization:** sales by the L'OREAL Group outside France in 1984 reached 60% of consolidated sales. Furthermore, the share of the cosmetics sector alone in sales outside France now exceeds 66%.

On a proposal by the Board, the distribution of a net dividend of 28.15 Francs per share was passed at the General Meeting and will be paid as from 28th June 1985. At that meeting, Mr. Roger GINOCCHIO was appointed a Director and it was decided to appoint a second Alternate Auditor: the Société Pierre FEUILLET S.A., represented by Mr. Olivier THIBAUT.

The Annual Report of L'OREAL for the financial year 1984 is available upon written request to:

**L'OREAL**  
Mr. François Archambault  
Financial Information Officer  
41, rue Maître 92117 Clichy - France

## Building society receipts in June fall to £350m

BY MARGARET HUGHES

**BUILDING societies** - savings institutions which lend money for house purchase - suffered a sharp reduction in the inflow of funds from savers last month, wiping out any hopes of an early reduction in mortgage interest rates.

Preliminary figures indicate that net receipts dropped to £350m in June - far lower than had been anticipated. This is the lowest level since March, when societies had to raise their rates, and almost half the level which societies attracted last month.

Societies attribute the slump in savings to continuing competition from the banks, combined with the withdrawal of funds to finance the second instalment of the British Telecom share purchases and the Abbey Life flotation.

Given that the savings level is traditionally low in the summer months, when investors tend to withdraw funds for their holidays and buy cars, there is little prospect of any immediate improvement. Societies estimate that they need an average inflow of £800m to meet mortgage demand, which remains strong at about £2.5m a month.

Societies are making greater use of wholesale funding and dipping into their own liquid assets to meet the demand for loans. An indication of the extent to which societies are running down their liquidity came with the publication yesterday of the first half-year results of Nationwide, Britain's third largest building society.

Mr. Tim Melville-Ross, the newly appointed chief general manager, disclosed that the society's liquidity ratio had dropped by 3.6 per cent since the end of last year to 17.8 per cent, although he pointed out that

this was still a "prudent high" level. The society raised £81m from wholesale sources.

Mr. Melville-Ross pointed out that, while gross receipts were up 14 per cent at £2.16bn, withdrawals were also "very high". As a result, Nationwide's net receipts at £350m were considerably less than in the same period last year, when they totalled £588m.

Nationwide's chief executive attributed the decline in net receipts to the "new energetic competition" from banks in the retail market. The actions of banks, he said, presented societies with the options of either concentrating on wholesale funding or meeting retail competition "head-on" regardless of the cost to the borrower. In the event, societies had chosen a middle course.

Mr. Melville-Ross reiterated his commitment to more orderly marketing. He indicated that, while not advocating a return to the interest rate cartel, he would like to see greater consultation between societies.

Greater self-discipline, he argued, could well have produced the same inflow of funds at a cheaper cost.

He said that passing on these increased costs to the borrowers in higher mortgage rates was not an option at current interest rate levels. For the time being, societies were able to dip into their liquidity and raise funds from alternative sources. But, if the current cost of retail funds continued for any length of time, this would affect societies' profitability in the longer term.

The Nationwide was the last of the major societies to hold out against investment-rate leap-frogging.

## MPs' bus reform plans rejected

By Walter Ellis

**PLANS** by the all-party House of Commons transport committee for reform of the bus industry - which would have provided for competition within a monopoly system - have been rejected by the Government.

Instead, Mr. Nicholas Ridley, the Transport Secretary, is to press ahead with his own proposals for open competition along defined bus routes.

The official proposals were contained in a White Paper (policy statement) published in February and the resulting Transport Bill is due to become law before the end of the year.

MPs had called on the Government to change its plans for the deregulation of the bus industry outside London by requiring competitive tendering to cover all services within a district, including those making losses.

The idea was that existing networks would be put out to tender to single franchisees. Monopolies would be maintained, while operators would have to uphold standards or face loss of their business at the next licensing round.

The Government does not believe that the element of competition in the proposal is adequate. It says that the committee's alternative would be more restrictive than the present system, since there would be no opportunity for an operator to seek to introduce new competing services during the duration of the contract.

There would, in addition, be insufficient incentives to operators to innovate, the Government says. "A heavy load would be placed on local authorities to specify services and fares, remote from the market test."

## Economic tipsters take a fall at the forecasting hurdles

BY MAX WILKINSON AND JOHN CASSIDY

**LIKE THE** unfortunate weather forecasters, those who set out to predict the course of the British economy are equipped with large computers, huge amounts of data and a punter's instinct. And they also get it wrong.

But at least the weather forecasters do not have to make hasty adjustments to their equations to cope with a strike among the thunder gods or a cartel of the four winds.

In forecasting terms, that was roughly the problem faced by the institutes and stockbrokers who set out to predict what would happen to the British economy last year.

They would need to be psychologists and fortune-tellers as well as econometricians to allow for all the effects of the year-long miners' strike which ended in March. In the event, the strike reduced output growth by a little over 1 per cent in 1984 compared with 1983, with major effects on the current account of the balance of payments and public sector borrowing.

Most forecasters did not attempt to predict the date at which the strike would end. They simply made assumptions which were fed into their computers. For this reason, any assessment of their accuracy is extremely difficult. Moreover, it is obvious that forecasts made before the strike started are under a severe handicap compared with those made later.

Like the weather forecasters the economic modellers do expect to influence people's behaviour, so it is only fair that they should be subjected to the test of hindsight.

The table below is based on the predictions of 22 organisations whose forecasts for 1984 were published in the FT on June 26 last year. We chose these rather late forecasts on the grounds that most of the pundits would then have had at least a sporting chance of assessing the progress of the miners' strike.

It must be said at once that the Treasury and the Confederation of British Industry (CBI), the employers' body whose latest published forecasts were in March, did not allow for the effects of the strike. This explains their relatively poor showing. They are included merely for interest. The Treasury, incidentally, would be close to the bull's eye on output as well as inflation if the target is moved a few paces to allow for the strike.

The method used was to compute the percentage error of each forecast compared with the outcome as set out in official figures in the middle of the month. We excluded variables such as the current account, which were enormously distorted by the strike.

For a final score we took a simple average of all the errors. A different selection of variables or a different scoring system could make a huge difference to the final scores, so we put them in alphabetical order rather than pretending to produce a league table.

The arbitrary nature of the scoring can be seen by comparing the performance of the National Institute of Economic and Social Research and the broker James Capel. Both had an average error of 13 per cent, but Capel's largest errors were in predicting consumer spending and exports, whereas the Institute made its biggest errors on GDP and inflation.

Nevertheless, with all its imperfections, the scoring system does suggest that on the whole the efforts of institutions using full-scale models of the economy were rewarded by better results than the City of London tipsters.

The London Business School, the National Institute and Oxford, which uses a version of the Treasury model all had low average errors. However, the creditable performances of brokers such as Simon and Coates and James Capel shows that the Davids among the

forecasters can often hit the mark as well as the Goliaths.

Most forecasters were over-optimistic about consumers' expenditure and pessimistic about exports. No doubt this is because forecasters are only human and, therefore, not immune from thinking the future will be like the immediate past.

Consumption has proved a formidable hurdle for forecasters since the 1970s, partly because of the way that changing inflation affects wealth.

Fortunately, private investment and better than expected export performance picked up some of the slack, although GDP forecasts were generally too high.

The over-prediction of consumption may also suggest the sheep-like quality of some forecasters who seem to treat the Treasury as a bell-wether and follow it with a few little twists of their own.

These figures should not be taken too seriously, especially since a similar exercise for other years would show very different results. The real moral is that economic forecasting the economy is difficult enough. Forecasting which forecaster will get it right is like looking for a 'cert' in the Grand National.

So it is in the spirit of the turf that we declare this year's outright winner to be the London Business School's Centre for Economic Forecasting by a short head. It cleared the three important fences: GDP, inflation and unemployment, with ease and lost only a few yards on the components of GDP-consumption and exports.

The City university which also scored well, has to be declared a non-runner for the technical reason that it did not publish forecasts for the components of GDP which we assessed.

Any tendency for City pundits to criticise at the Treasury for coming second to last must be curbed; we have our monocles on them for this year's race.

Forecasts for UK economy - how they fared

Forecaster	Date 1984	GDP	Consumer Spending	Exports	Inflation	Unemployment	Average
Cambridge Econometrics	June	28	47	-17	13	-2	23
Capel-Cure, Myers	June	25	80	-17	-9	0	26
CBI	March	17	100	-47	-9	-3	33
City University	May	7	-	-	6	-3	5
Data Resources Inc.	June	-11	-7	-8	13	-3	8
Grieson Grant	June	90	127	-17	4	-6	48
Healey Centre	July	24	60	-20	4	-3	22
Healey Gossett	June	36	67	-11	52	0	34
Item Club	June	13	67	0	0	-3	18
James Capel	July	4	27	-29	-4	-3	13
Leah and Cruickshank	June	50	27	-9	6	-8	19
Liverpool University	May	71	-	-	-27	-8	35
London Business School	June	-4	7	14	-2	0	5
National Institute	May	-30	7	2	25	-3	13
OECD	June	4	67	-20	3	-3	24
Oxford Economic Forecasting	May	4	-7	-3	17	-3	7
Phillips and Drew	July	21	83	-2	2	-3	24
Rowe & Phipps	June	38	60	2	4	0	25
Simon and Coates	July	4	47	-15	8	0	14
Staniland Hall	June	8	27	-30	8	0	14
Treasury	March	29	127	-25	-6	-6	47
Wood Mackenzie	June	21	67	-15	0	-6	22
<b>OUTTURN</b>		<b>24</b>	<b>15</b>	<b>6.6</b>	<b>4.8</b>	<b>3.1</b>	

Note: Outturn is real percentage increase year on year for GDP, consumer spending and exports; inflation is 12 month rise in RPI. Unemployment is 4th quarter adult total in millions. Error: figure is percentage over-estimate except negative figures which are under-estimates. Errors are calculated as closely as possible from variables actually forecast; for example consumer prices rather than RPI.

## Carpet makers use more woollen fibres

Financial Times Reporter

**WOOL** NOW accounts for almost two-thirds of the total fibre consumption in woven carpets.

Strong demand for carpets last year and a switch out of man-made fibres saw wool's share of this sector rise from 67.1 per cent in 1983 to 64.6 per cent in 1984.

Wool also gained ground in tufted carpets, improving its share from 17.5 per cent to 18.5 per cent. Total wool consumption last year in the carpet market rose to 87.22 kg from the previous year's total of 84.49 kg.

The International Wool Secretariat said: "The improvement is due to British companies trading up to combat the influx of imports, the bulk of which are cheap synthetics."



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## THE ARTS

11

Television/ Christopher Dunkley

## Disturbing lessons from the hijack

There were two long-running international stories in which television itself played a central role last week. One captured the attention of the world whereas the other attracted a small, if enthusiastic, audience to BBC2. For the part it played in the first story, television has already been widely criticised—often for the wrong reasons—in my view. For the part it played in the second, television has received (and no doubt will receive) precious little of the credit it is owed. The first story was the seizure of 89 American hostages by Arab hijackers, and the second was the selection of the Cardiff Singer of the World.

It is commonplace these days to condemn television for the way it features so centrally in incidents such as the hijack of the TWA jet. When the hijackers parade their prisoners in front of the world's cameras, it certainly seems clear they are relying on the power of television to carry their demands swiftly and dramatically to the people who matter most: the families of the victims and the politicians in the target country. And it is certainly true that no previous mass medium has been able to convey material of this sort with such vividness and immediacy.

Thanks to satellite systems, television can now enable those living in Washington or London to observe events occurring in, say, Beirut, virtually instantly. In the world of international diplomacy, such unprecedented speed of communication can presumably be a major drawback. People need time to think; and just as the movement towards computerised decision-making in the matter of nuclear war is so horrifying because it deprives us of the time for thought, so the intervention of television in terrorist affairs could be disastrous.

For this reason alone, broadcasting organisations working from democratic countries should decline any invitation that they will co-operate with governments in delaying coverage when requested to do so, as long as they are persuaded of the gravity of the case.

Provided the mass media are numerous enough for there to be little chance of the government "nobbling" all the outlets, such an arrangement ought to work (as it already has occasionally in Britain between police and press, albeit in less extreme circumstances), so long as it is a truly voluntary arrangement.

But, in the end, television is only a machine, and suggesting that such arrangements may be necessary because of television's speed of communication is not the same as saying that television is "to blame" for the TWA hijack, or is necessarily even at fault in the way that coverage of the Arabs' demands was handled. You might blame the messenger if he obliges you to negotiate with untoward haste, but you still cannot blame him for the message itself, let alone for the policies of those who send the messages.

What are the motives of those who oppose the presence of television in these matters? It is hard to avoid the feeling that their real fear is that the terrorists will turn out to have a case; not for their terrorism, but for the demands which they felt justified their terrorism. After all, what is to be feared from worldwide

## TV failed to convey, or even consider, the reasons for what President Reagan called 'ugly, vicious, evil terrorism'

exposure if it leads merely to worldwide condemnation? The surely, arises only at the thought of worldwide sympathy.

There is a criticism to be made of the coverage of these events, but it is not that television aided and abetted terrorists. On the contrary, it is that television (like newspapers, but this is a column of television criticism) failed to convey, or even to consider, the reasons for what President Reagan called "ugly, vicious, evil terrorism." His words chimed oddly with three paragraphs which appeared in *The Guardian's* lead story reporting the freeing of the hostages on Monday.

"The hostages said they had not been ill-treated despite the horror of the original hijacking. Some spoke of their ordeal as a learning experience which had taught them why their captors had been 'driven to desperate acts.' The tone of their remarks was strikingly sympathetic."

Christopher C. Rowell stressed that the hostages wanted 'justice and understanding,' not 'retaliation or revenge.' The TWA

captain, Mr John Testrake, said they had found Amal to be "human beings, people with the same fears, hopes and dreams for their country as we have."

"The hostages left Beirut clutching flowers distributed by the gunmen guarding them."

Clearly, there is a touch of Stockholm Syndrome there (the captive coming to identify with the captor); but there is also enough to open your eyes and make you wonder whether the communists' modus of communist and terrorist organisations might not be the only ones suffering from tunnel vision.

You do not have to be a communist or a Shiite to ask America, with its history of saturation bombing of civilians in Laos and Cambodia, and of civilian assassinations by the CIA elsewhere, is in any position to call any other kettled black, or to condemn anyone self-righteously as a "terrorist."

It is in such matters as these that television can be faulted: in all the many programmes that I watched, such questions were never considered. Even in Monday's *Panorama*, after the hostages had been freed, what was still being asked over and over again was "Who won?"

There was no doubt about the winner in the week's other international television event, the Cardiff Singer of the World Competition. His identity—David Malis of the U.S.—was revealed to viewers on Sunday at the end of the six concerts which had brought extraordinary diversity of song to BBC2 throughout the week. First organised in 1983, and now

established as a biennial event, the contest is for "singers on the threshold of their careers."

This year it attracted entries from 24 countries. To the non-expert enthusiast, the standard of singing in the concert broadcast Monday to Friday seemed astonishingly high, despite the fact that the fourth-rate solo systems fitted even on most of the more expensive television sets makes it hard to be sure. Somewhat surprisingly in a singing series, the sound of both orchestra and interviews seemed rather better than the sound reproduction of the singers.

Of course, there is no substitute for being present in the flesh, as these of us fortunate enough to attend the telecasting of the final contest in St David's Hall on Saturday discovered. Viewers at home could not really tell that the audience's lukewarm reception for Wales's own contestant contrasted vividly with the enthusiasm that greeted the Chinese bass, Yue Liu. While television certainly conveyed the power and quality of his voice, it scarcely hinted at his rare rapport with the audience, though it did reveal his charm.

As could television really communicate to the viewer that touching and almost magical atmosphere of camaraderie which is quite often achieved at international occasions of this sort. The friendliness and end-of-term atmosphere among the singers (not generally famed for fellow-feeling) was both endearing and infectious.

The pity of it is that although television—BBC Wales, to be precise—was wholly responsible for the very existence of this event; although the event was a heartening example of the fellowship of nations which can be achieved via the arts; although it was peaceable, happy, delightfully friendly and a splendid example of human ability at its most sublime, only a tiny minority of viewers will ever be aware that it took place. Yet, thanks to television, everyone knows about the hijacking.

Television's news agenda is selected, of course, on the basis of what the broadcaster believes the viewer most wants to see. Only in totalitarian states do tractor production figures and singing contests take precedence over human drama. But perhaps our broadcasters might turn to the scores of David Malis on to the very bottom of the news agenda from time to time.



Anthony Dowell and Jennifer Penney in the Royal Ballet's "Manon," being staged this week in the Big Top at Battersea Park, London

## Grafters/Hampstead Theatre

Michael Coveney

Grafters are the opposite of skydivers, but they all come to the same end in Billy Hamon's first play: the redundancy of a car factory where six workers have been randomly consigned while the management awaits their resignations.

Mr Hamon, a bustling actor of criminally angelic demeanour, who once "skydived" to good effect himself in Barry Reckord's play *Skyrivers*, has written from the experiences of his father-in-law at the Rolls Royce plant in Hillingdon.

The old boy here is Wally (Richard Butler) who drifts on to report the death of his budge and the state of his piles. All his life a grafter, he results this adding timber, the half-way house where mental tasks of painting walls and scrubbing floors are all that stand between a skilled worker and the dole queue. Wally has worked here for 46 years, with three to go. Young Roy has been here eight weeks, having looked for a job for three years.

Mr Hamon's production dutifully assembles the others. Roy and Nobby compare notes on girlfriends, the former (Greg Cruikwell) teasing his overweight, bespectacled sidekick (Perry) about "water sports"; the James Dean imitator, Steve (David Hayman), arrives late having had trouble getting his jeans on; most interestingly, there is Tim Roth's introverted Peter who sits lugubriously black-suited like the Hamlet of Barking Creek muttering about buttons and fishing broken biscuits out of the height of his powers.

Mr Roth's is the pick of the performances, along with John Benfield's quietly smouldering, transparently decent Len whose wife has been one of many entrained by Steve's charms. The sex of his Corinna. This revelation leads to one eruption; another is caused by Nobby pushing a broom handle up old

Wally's trouble spot; yet another by the careless handling of a life black kitten (animal liberators please note, it's a prop).

The floor manager (Roland Oliver) storms on and off, stopping only for one brief chime with Len about the old days, but although Mr Hamon is at home in his cockney idiom, there is little convincing sense of real life going on off the premises. By the end, the machinery creaks, and the greyed-out set of Tony Burroughs, with its lockers and pneumatic magazine pin-ups, reveals a marvellous new depth to the room and backstage (improvements have been in progress) that Jane Howell's production fails to exploit.

Since Heifetz retired, Nathan Milstein has been the only pupil of the legendary St Petersburg school of Leopold Auer still to appear regularly in public. That would be remarkable enough, for Auer left Russia in 1917. But more remarkable still is the phenomenon of Milstein himself, now in his 81st year, a musician with the manner and bearing of a sprightly 60-year-old, a great violinist who can still be heard, with remarkably few lapses, at the height of his powers.

He was on robust and sparkling form for his recital on Monday night. He began with one of his customary encores, a Vivaldi sonata (on this occasion the D major Rite), delivered with the directness, simplicity and purity of tone that are the Milstein hallmarks. He has never been, in this

## More Vivier/Almeida Festival

David Murray

Among the mini-festivals embedded in the continuing jam-boree at the Almeida Theatre is "Homage to Claude Vivier." Vivier's untimely death three years ago was mourned in France as well as in his native Canada (this "Homage" is sponsored by the Canadian High Commission), but he had composed more than enough music to reward posthumous attention.

Monday's concert by the Lontano ensemble included three quite different Viviers, an elegiac tribute by Gavin Bryars and a big chamber-cantata by Vivier's one-time teacher, Gilles Tremblay.

The Vivier works showed us a young composer not so much groping for a style as cultivating distinct facets of what would surely have become one. (Perhaps at the last it did: we may find out this weekend, when the Almeida does his ritual-opera *Kopernikus*). His 1975 *Poème* for flute and piano was a rhapsodic "montage of intense moments" from his other scores, lyrical and wild, with rapturous flute curvettings and wry punctuation.

By contrast, the 1977 *Palau de la Música*, written after a visit to Bali, was a transparent exercise in additive rhythms and modal

tunes, rather in the spirit of Messiaen.

The instrumentation of *Palau de la Música* is left free; Lontano realised it on piano (right hand only) and winds, but I suspect that a more homogeneous ensemble would make its points plainer. Certainly, Vivier's use of piano and wind quintet in the 1981 *Samarand* was utterly different: the initial neo-Romantic piano gestures soon melt into a liquid impasto, dense, steady woodwind ripplings, penetrated occasionally by a rising horn-line or a subaqueous explosion.

The sound has an ancestor in Ravel's *Mallarmé* songs with ensemble, but Vivier's construction is specifically modern—baleful, repetitive blocks with significant fractures.

Tremblay's visionary cantata *Poème* conjures up a large score by increasing extreme registers of pitch—soaring flute, percussion and piano high and low, and an eloquent bass clarinet whose treble squeals become part of the solo soprano voice (Pauline Vaillancourt, excellent).

This is a drama of transformations, with an impact that goes beyond its musical devices. The Bryars choir's woe, devoid, limpid, sweetly sad.

## Rats in the Skull/Royal Court

Martin Hoyle

Ron Hutchinson's claustrophobically absorbing and murderously intense arabesque on old hatreds buried in the blood and bone has returned to the Royal Court from a well-received stay in New York.

Michael Patrick De Valera "Demon Bomber" Roche has signed a confession in Paddington Green nick. The British police, contemptuous of Paddy in general, call an Ulster IRA suspect further. A sewn-up case goes terribly wrong; we see the interrogation intercut with subsequent inquiries into the Ulsterman's eruption of violence towards the suspect. The bomber goes free; a scandal must be hushed up.

The piece emerges as a confrontation between the divided Irishmen to which the British seem an increasing irrelevance. Brian Cox is the RUC Detective, and his soaring monologues of sardonic mockery of himself, of himself, of the stereotypes he is coming, fatally, to doubt—form the play's core of biting humour.

The rat in the skull is doubt, the suspicion that it may not

after all be worthwhile. Mr Cox's beefy attack as his bitterness rises is totally engrossing. His accent may betray the odd hint of Scots or Geordie—not inappropriate for a descendant of James I's settlers—but the tough, incisive and relentless performance leaves nothing to be desired. Colum Conway's prisoner, his rage occasionally subsiding into silliness, and the angry, regretting the days when "bombs was what wogs threw at each other," provide good if necessarily overshadowed support.

In Max Stafford-Clark's production, the bare suggestion of the police charge-room in Peter Hartwell's set finally reveals the green hills of Ulster; and what looked like the cross-bars of a prison window emerges as the lights of a rifle. Peace depends, we are told, on who runs out of hate first; and there is the faintest glimmer of hope in the Detective's almost sacrificial abandonment of his career. Exclusively written and delivered as tour de force by Mr Cox, the play never relaxes the tension during its single 100-minute act.

## Milstein/Festival Hall

Dominic Gill

sense, a very "Russian" violinist: the playing has a restraint and classical poise, and a sense of the music's continuity that sets it apart from the world of Elman, Zimbalist, Heifetz or (at one further remove) Ricci and Oistrakh. It was a characteristic overtone to a recital that contained no less than three Vivaldi cadences, a hint of darkly-burnished indulgence.

Milstein's Bach playing has become freer and more improvisatory over the years. The early Bach recordings are exceptionally correct, almost severe. But here he opened the G minor solo sonata with an adagio of delicate, tentative music as if he were discovering the shape of the music for the first time linking it gently to the succeeding fugue, and thence following a single un-

broken line through the Siciliano and finale.

His Brahms 4 minor sonata, accompanied deftly and attentively by Georges Pludermacher, was impeccably, warmly phrased, generously rounded—the scherzo in particular, like the whole performance, was wonderfully well-mannered without ever seeming in the slightest stiff or reticent.

Milstein returned after the interval to give a pair of Fagott's Caprices—and No 5 in particular with a concentration and glitter that Salvatore Accardo only dreams of. His own arrangement of Chopin's C sharp minor Nocturne was one of the most seamlessly perfect things of the whole recital, played muted throughout. And his finale of Saint-Saens's Introduction and Rondo Capriccioso was done with very dry humour, driven home with splendid and absolutely un-schmalzty virtuosity, exquisitely tuned.

## Saleroom/Antony Thorncroft

## Drawings in demand

A rough sketch, in fact an oil model, of the Deposition from the Cross by the early 17th century Italian painter, Palma Giovane sold for £33,500 at Christie's yesterday in an auction of Old Master drawings. The price was way above the £12,000 top estimate, probably because such models by Palma are rare.

The morning session of the sale totalled £342,014, with 11 per cent unsold, a figure largely accounted for by the failure of a study of Jacob and Rachel at the well by Castiglione to find a buyer: it was bought in at £24,000.

Baskett and Day, the London dealers, paid £37,800, again way over forecast, for a head of a Venetian patrician by Tiepolo while the Adoration of the Shepherds by Il Baciccio also did well at £25,920: it is an unrecorded drawing for a major altarpiece by the artist in the church of Santa Maria del Carmine at Fermo. Another Tiepolo head of a Venetian patrician realised £19,440.

Old Master drawings are currently a strong market, and these Italian works exceeded their estimates mainly because many were previously unpublished. But there was also some demand for French artists, and two works by Moreau l'aîné showing aristocrats at play, dated 1775 and in body-colour, just beat their forecasts at

£16,200 and £14,040 respectively. The Suffolk dealer Maureen Thompson paid £11,550 at Sotheby's for a previously unrecorded enamelled colour-tinted wine glass of 1767 by Boilly, the most collected glassmaker of the 18th century. This glass turned up recently at a Sotheby's discovery day in Guildford. It is decorated with a three masted sailing ship called *The Providence*. The price paid was around double the forecast.

Another Boilly bowl, in fact a cordial, went for £5,060 to Asprey while an 1875 Pellatt and Wood engraved presentation claret jug, awarded for skill at rifle shooting at Wimbledon—where rifle contests were held before the Boilly opera in 1889—sold for £4,840. Delamotte, the dealer, acquired yet another Boilly decorated decanter and stopper for £2,750 while a wine glass of 1770 by Boilly was on target at £2,080.

New musical Alan Price's new musical *Who's a Lucky Boy?* will have its world premiere at the Royal Exchange Theatre, Manchester, on July 9, and run for five weeks. The show, a modern version of *The Rock of Progress*, is designed by cartoonist Gerald Scarfe and directed by Braham Murray.

## Arts Guide

## Theatre

## LONDON

**Waste (Lyric)** Deserved transfer to the Barbican Avenue for the RSC's fine *Harley Granville* play about a politician ruined by sex scandal. Daniel Massey and Judi Dench head John Barton's production. (457 9838).

**Breaking the Silence (Marmalade)** Another RSC transfer, of Stephen Poliakoff's account of his family's emigration from post-Revolutionary Russia. Alan Howard succeeding Daniel Massey alongside Jenny Agutter. Impossibly set in an Imperial railway carriage. (236 5689).

**The Mysteries (Lyceum)** The theatre of Henry Irving and Joe Loss restored theatrical performance after 40 years. Bill Bryden's NT production in three parts is not to be missed, one of the great events of recent years. All three shows played on Saturdays for this limited run. (879 3053).

**George and Dolly (Prince of Wales)** The 1982 National Theatre production has arrived in the West End, if anything improved by the new casting of Liza as Miss Adelaide and the notably well sung Black Sky Master of Clarke Peters. Richard Eyre's production and John Guter's affectionately lavish designs complement this most joyful and literate of musicals, a fitting tribute to the recently deceased co-librettist Abe Burrows. (330 8881).

**Nelson's Off (Savoy)** The funniest play for years in London, now with an

improved third act. Michael Blake-more's brilliant direction of backstage shenanigans on tour with a theatre farce is a key factor. (838 8888).

**Starlight Express (Apollo Victoria)** Andrew Lloyd Webber's roller-skating folly has 10 minutes of Spielberg car-wreck magic, an exciting roller coaster and a dwindling reliance on indiscriminate rushing around. Disneyland, Star Wars and Cats are all influences. Pastiche sows nods towards rock, country and pop. No child is known to have asked for his money back. (834 8184).

**On Your Toes (Palace)** Rodgers and Hart's 1936 musical is a genuine tonic. American jazz dance collides with the Balloons Russes. Gems include *There's a Small Hotel*, Glad to be Unhappy and the Balanchine ballet for Slaughter on Tenth Avenue. (437 8344).

**2nd Street (Drury Lane)** No British equivalent has been found for New York's Jerry Orbach, but David Merrick's top-dancing extravaganza has been rapturously received. American Clare Leach is a real find as Peggy Sawyer, and Margaret Courtenay has a field day. (838 8108).

**Me and My Girl (Adeph)** Sleazebag and endearing revival of Britain's biggest war-time musical hit, with Robert Lindsay in the Lupino Lane role emerging as the best new musical star since Michael Crawford. (838 7611).

**The Government Inspector (Olivier)** Striking but unfunny revival with under-equipped TV comic Rick May-

all playing the posier as a striking nose-picker. Richard Eyre's production for the NT lacks either comic timing or the boldness of the original. John Guter's imposing design of bureaucratic bunnies, the show has a sort of monumental stinkiness as well as nightmarish tedium. New musicals by Adrian Mitchell. (222 2252).

**Barnum (Victoria Palace)** Michael Crawford returns to London with his breathtaking performance as the circus impresario, adding one or two new tricks in a likeable marriage of a musical. (834 1317, credit cards 828 4735).

**Jumpers (Aldwych)** Confident almost sober revival of Tom Stoppard's glittering comedy of love, murder and linguistic mayhem among the logical positivists, with Paul Eddington a more earth-bound George Moore II than was Michael Hordern. Felicity's musical delight as his retired musical comedy ways in *World Directs*. (838 6404, credit cards 378 8233).

**Richard III (Barbican)** Last year's Stratford-upon-Avon production with Anthony Sher dominantly exciting as Richard in RSC revival by Bill Alexander. Plays in repertory with *Romeo and Juliet* and *Hamlet* with Kenneth Branagh as Henry V. All worth seeing. (628 8795, credit cards 378 8891).

**Pravda (Olivier)** Entertaining epic new play by David Hare and Howard Brenton for the National Theatre in which an unscrupulous South African magnate acquires Britain's

most prestigious newspaper. A Jonsonian satire on the grand scale with an irresistible performance by a superbly casted ensemble, which penetrates the Establishment while a nation dithers. (828 2252).

## NEW YORK

**Torch Song Trilogy (Helen Hayes)** Harvey Fierstein's touching and funny recollections as a drag queen add up to the best historic Sarah Bernhardt role on Broadway today. (944 9450).

**La Cage aux Folles (Palace)** With some tenuous Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2625).

**Cats (Winter Garden)** Still a sellout, Trevor Nunn's production of T. S. Eliot's children's poetry set to trendy music is visually startling and choreographically fellic, but dithers only in the sense of a rather staid and overblown idea of theatricality. (328 8282).

**42nd Street (Majestic)** An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like *Shuffle Off to Buffalo* with the appropriately brash and leggy hoofing by a large chorus line. (977 9026).

**Dreamgirls (Imperial)** Michael Bennett's latest musical has now become a stalwart Broadway presence despite the forced effort to recreate the career of a 1960s female pop

group, à la Supremes, without the quality of their music. (238 6200).

**Brighton Beach Memoirs (48th St)** The first instalment of Neil Simon's mix of memories and jokes focuses on a Depression-era Jewish household where young Eugene falls awkwardly in love with his cousin. (221 1211).

**A Chorus Line (Shubert)** The longest-running musical ever in America has not only supported Joseph Papp's Public Theatre for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (238 6200).

**Sunday in the Park with George (Booth)** Inspired by the Securi painting, Stephen Sondheim fashions a musical with dots and dashes of song that end too soon but work well with Tony Straiges's pretty set and James Lapine's book which changes gears in the second act. (238 6202).

## WASHINGTON

**Count of Monte Cristo (Eisenhower)** The second production of Peter Selinger's new American National Theatre company is the James O'Neill version of this swashbuckler. (254 3670).

## CHICAGO

**Six Characters in Search of an Author (Goodman)** Robert Brustein brings his acclaimed American Repertory Theatre to Chicago for this Pirandello classic. Ends July 14 (443 3800).

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## FINANCIAL TIMES

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## Gorbachev's power play

BY unconventional, yet decisive means, Mr Mikhail Gorbachev has consolidated his power this week. Defying recent practice, the Soviet Party general secretary has decided not to take the post of president himself, but instead to elevate Mr Andrei Gromyko to that job. He has replaced the veteran foreign minister with Mr Eduard Shevardnadze, a provincial party leader from Georgia, a man quite unversed in diplomacy but known to be of the Gorbachev mould in domestic policy.

Less eye-catching to the outside world, but of more relevance to the protection of Mr Gorbachev's power base, was the dropping of his erstwhile chief rival, Mr Grigory Romanov, from the Politburo and the further rise of his key lieutenant, Mr Yegor Ligachev as the effective number two in the Soviet leadership.

In 1977 Mr Leonid Brezhnev started the practice of uniting the posts of general secretary and president in one man, himself, on the ground that this gave the party secretary more prestige in dealing with foreign heads of state. Mr Gorbachev repeated exactly the same argument last year when he proposed Mr Chernomirko for the presidency. Now he has reversed himself to say that the allocation of posts should reflect the "major tasks" ahead, which he then defined as improvements in the domestic economy.

## New blood

What the pundits reckoned without was Mr Gorbachev's desire for a better distribution of labour at the top of the Kremlin hierarchy, as well as throughout Soviet society. The new arrangement seems to leave Mr Gorbachev relatively free to press for sweeping changes in management and work practices in the Soviet economy. It gives Mr Gromyko, the Soviet Union's "grand old statesman", the grand old statesman's job of meeting and greeting foreign dignitaries, and Mr Shevardnadze, better quality in manufactured goods and less waste in raw materials, pay linked more to results and so on. Most of these reforms have been tried before, notably in the mid-1980s and the 1970s, but came to little. Mr Gorbachev is no radical. He is not a market socialist, or a believer in free prices or in the creation of even a tiny private sector. It is because he is the younger generation of Soviet leaders, that he has his way in, initially under the Gromyko tutelage.

This set-up in no way reduces Mr Gorbachev's role as the

ultimate arbiter of Soviet foreign policy, as was made clear by the confirmation yesterday that he would be holding a summit meeting with President Reagan in Geneva in November. Thus, it seems there will be no repeat of the confusing triangle between Brezhnev, Kossygin — that ran the Soviet Union for some years after the ousting of Khrushchev. Until Brezhnev eventually emerged as clear leader, foreigners were left in some doubt as to which of the three really ran Soviet foreign policy.

No immediate change in the substance of Soviet foreign policy is to be expected, but some change in style is possible. Mr Gorbachev believes that Moscow's strategic and political arguments against the Star Wars programme warrant no compromise in the Soviet position at the Geneva arms talks, and none has been forthcoming.

## Bitterness

But the sharpness of Mr Gromyko's recent presentation of Soviet positions to the U.S. may stem from bitterness at the fact that, despite his career long speciality in U.S. affairs, he leaves U.S.-Soviet relations just about as bad as when he took over the foreign ministry. Mr Shevardnadze would not have the same emotional baggage. He may have other interests, too. His few travels, outside the socialist camp, have been largely to the Third World, while Mr Gromyko never set foot in Latin America (bar Cuba) or black Africa. Some shift in Soviet diplomatic priorities away from East-West issues would also square with the call Mr Gorbachev has revived for the Soviet Union to make itself a model for the Third World.

But at present, as Mr Gorbachev knows all too well, the Soviet Union, particularly its economy, is no model for anyone. He has already outlined the changes he wants — streamlining of central planning, more autonomy for enterprises, better quality in manufactured goods and less waste in raw materials, pay linked more to results and so on. Most of these reforms have been tried before, notably in the mid-1980s and the 1970s, but came to little. Mr Gorbachev is no radical. He is not a market socialist, or a believer in free prices or in the creation of even a tiny private sector. It is because he is the younger generation of Soviet leaders, that he has his way in, initially under the Gromyko tutelage.

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## Self-regulation in the City

BRITAIN'S new investor protection agency has moved into its new headquarters yesterday evening by staging its first formal meeting with representatives of the financial services industry.

The Securities and Investments Board and its associated body, the Marketing Investments Board Organising Committee, are anxious to impress on the financial community that time is short for the formation of new self-regulating organisations (SROs) if they are to be in a suitable state for formal recognition before the investor protection legislation comes into effect.

On the present timetable, the SIB and the MIB (if it is set up as a separate body) will acquire statutory powers some time in the late autumn of 1985 and the legislation will come into full effect at the beginning of 1986.

It is intended that the bodies will operate in practice largely through SROs. There will be provision in the law for direct authorisation of firms or individuals by the boards, but it has always been clear that such direct authorisation could not be allowed to be a soft option, and yesterday the SIB and the MIBOC emphasised that it could turn out to be significantly more expensive than membership of a recognised SRO.

**Pressure**

The boards do not wish to see a proliferation of SROs. At the same time, the number of suitable established bodies is rather small, especially in the MIB's territory of life assurance and unit trusts. In this field there are various trade associations such as the Association of British Insurers, the Unit Trust Association and the British Insurance Brokers' Association, and one statutory body, the Insurance Brokers' Registration Council (IBRC).

convert it into an SRO, and its life assurance and general insurance functions would need to be separated.

In the direct investment area to be regulated by the SIB the SROs already in existence or in the process of formation are the Stock Exchange, NASDIM and the Association of Futures Brokers and Dealers. It is possible that the list may end there if these bodies extend their coverage, but the SIB is conscious that some sectors are at present supervised very thinly, if at all.

Types of activity causing concern to the SIB include investment management, dealings in foreign securities, Eurobond trading and corporate finance (including the takeover panel, the position of which has been under intensive discussion for some months). There is also the question of regulating the so-called over-the-counter markets in securities separate from the stock exchange.

## Demands

So far the big clearing and merchant banks have been slow to respond to the regulatory challenge, perhaps understandably in view of all the other current demands on the energies of their managements. In some cases their investment management departments have joined NASDIM, but little has been heard of the suggestion at the time of the Gower report on investor protection that the Accounting Houses Committee might be willing to turn itself into a self-regulatory body.

The point the SIB was making to financial services industry representatives yesterday was that it will take at least a year for a new SRO to set up a secretariat and equip itself with all the necessary paraphernalia of rule books, codes of conduct, disciplinary procedures and compensation schemes.

It is difficult to approach Michelin both the man and the company — without some feeling of awe.

The company is one of few in the world which has single-handedly transformed an industry by a revolutionary invention. In this instance, it was the radial tyre, introduced by Michelin in 1946 and now almost universally adopted on cars and trucks because of its superior handling qualities and durability.

As for the man, Francois Michelin, who 58 still carries the modest title of "gerant" (manager), he is famous for his indifference to the worldly whirl. He would not allow General de Gaulle into his factories and he steers well clear of the crowd of civil servants, bankers and industrialists who consort to run France. His interview with the Financial Times last week at the group's headquarters in Clermont-Ferrand was the first he had given to any newspaper in six years.

But times are changing. Michelin had the tyre industry by the tail for nearly three decades because of its development of the radial. Now its rivals have caught up with the group in a hard, global battle with U.S. and Japanese rivals. Perhaps the gerant has decided that Michelin needs more understanding from the media and the financial markets if it is to retain their support.

"We are becoming a normal company," is the way M Michelin explains it. "If I had revealed our position 10 years ago, it would have sounded spectacular. But we know it did not represent the future. We had no competition then. Now it exists. Imagine Napoleon with tanks. Well, we have tanks for a long time, and the opposition did not."

M Michelin, a tall, gaunt man who cuts a figure reminiscent of Jacques Tati, talks like that. He is to the point, and speaks clearly and to the point, amplifying his ideas with simple, vivid images often delivered with a mischievous grin on his cherubic face. Question: "Is it true that you received subsidised interest rates from the French Govern-



ment on a recent loan?"

Answer: "No. But we would like to be treated like the Soviet Union."

Question: "Where do you look most for improvement in the near future, in product development or in manufacturing processes?"

Answer: "Which of your legs do you think is most important?"

M Michelin talked to the FT for several hours in a hotel meeting room. There was no question of our visiting the group's factories. Even so, the group's conscious effort to deeply checked the next room, apparently to make sure no one was eavesdropping. He was accompanied by the group's finance director, M Behrouz Chahid-nourai, the product director, M Jean Gorce and the research director, M Jean-Claude Gizard. They obviously work closely together, a small team managing in the dedicated, unpretentious way of a deeply

## World tyre industry

## A rare interview with the Michelin Man...

Paul Betts and Ian Rodger report on the French company's new-found confidence

rooted provincial enterprise. Setting the tone, M Michelin drove his own plain saloon car to the meeting.

But the well ordered calm of Michelin's life was badly disrupted in 1979 and the group has not yet totally recovered. Having gradually assumed dominance in the European tyre markets in the 1950s and 1960s, Michelin set out in the 1970s to conquer North America. For a small French company that was about one-fifth the size of Goodyear, the U.S. market leader, this was an astonishingly ambitious thing to attempt.

But the U.S. tyre makers, in a classic abuse of market power, had been postponing the adoption of radial technology as long as possible. The problem with radials, from the manufacturer's point of view, is that they do not wear out as often as conventional tyres, which means fewer replacement sales. They are also more difficult to make as became apparent when Firestone had to recall almost the entire production of its 500 model in 1978.

Michelin seized the opportunity, and started attacking the North American market in the late 1970s. But it soon realised that General Motors, Ford and Chrysler would only put Michelin on their cars and give the company a vital hold on the "original equipment" market, if Michelin tyres were made in North America. But the company swallowed hard, and plunged in with investments of over \$1bn to build eight plants in the U.S. and Canada.

The group's total output quadrupled in ten years, and for a while it looked like nothing would stop it. But the U.S. competitors caught up and then, in 1979, the market turned down and Michelin was caught with vast excess capacity. To make matters worse, the dollar soared against the French franc, and

the company had to service its substantial dollar borrowings with even larger amounts of francs.

The Michelin directors admit today that they were not accustomed to having to worry about things like inventory levels and cash flow, and that it was a long time before they started to carry out the necessary surgery. "A racehorse cannot be changed into a work horse," M Michelin notes wryly.

In the three years to the end of 1984, total losses exceeded FF8.5bn (\$1.27m), and this year



Francois Michelin: "Nous sommes pneumatiques."

'If we had not gone to the U.S., we would be dying,' M Michelin says bluntly

the company expects to do no better than break even. Factories have been closed in Britain, Italy and Belgium and many others have been rationalised. The workforce has been cut from 137,000 in 1980 to 110,000 today, as automated machinery has been brought in.

Stocks have been reduced from over 44 per cent of turnover three years ago to less than 34 per cent. Output per worker has doubled in the past decade and rejection rates have dropped by a factor of 10. But the group's net borrowings of roughly FF30bn are still three times the level of shareholders' equity. With the company restored to a position of approximate breakeven in its current business year, the directors are now making a start at rebuilding the equity through a FF500m convertible bond issue, but it is counting heavily on retained earnings to bring its equity back up to about a third of total capital.

The bad years have left scars. People even wondered if Michelin would survive. Competitors nourished the doubts with insinuations about the fading of its technological edge, its slowness in responding to market trends and problems with a new product.

It is true that Michelin was slow to introduce an all-weather tyre, which became very popular in those parts of North America with severe winters. But the company still believes that this tyre makes too many design compromises.

lished itself as the clear number two in the car and truck tyre markets in the U.S. It claims about a 10 per cent share in the new and replacement car markets, second only to Goodyear's 15 per cent. Its penetration is even greater in heavy truck markets where tyre durability is tested to the full. It has a 20 per cent share on new vehicles and 17 per cent on replacements. In radial tyre, it leads the market with a one-third share, well ahead of Goodyear's 26 per cent.

In Europe, it is the market leader in every country, with an overall share of about 40 per cent on new cars and 60 per cent on new trucks. "We are like a tyre (Nous sommes pneumatiques)," M Michelin says, "supple and strong."

And the company is still totally and exclusively devoted to tyres and wheels. Most of its competitors have diversified in an attempt to level out the volatile automotive industry cycle, but Michelin will not follow. Today, about 95 per cent of its revenues come from tyre sales. The rest comes from wheels and the admirable maps and guides.

M Michelin has thought a lot about the prospects for the tyre business, but has concluded that the future of motor vehicles is good, and motor vehicles will always need tyres. "You will always need a spring between your bottom and the road, and air will always be the cheapest spring," he says.

He is also confident that the complex composition of rubbers and steel that make up today's tyres will be hard to replace. A few producers are trying to develop injection moulded polyurethane tyres, but M Michelin is sceptical. "The most resilient species on earth have been those with skeletons," he says in a typical enigmatic. It is very difficult to find a single material

that can be both flexible and rigid.

Also, radial tyres are still improving. In the past five years, Michelin claims to have extended the life of its tyres by about 3 per cent, reduced their resistance to rolling by 30 per cent and reduced their noise. New materials promise further improvements. Michelin frequently develops products related to wheels and vehicle suspension systems, but it sells the technologies to others, preferring to concentrate on tyres. This is a fantastic business," M Michelin says. "There are still so many areas of possible research we don't need to diversify. And our customers are ruthless at exposing our weaknesses."

He also believes that the need for development plays to the company's strength. "The state of our markets will not enable everyone to pay for the necessary research," he says. A shake-out has already begun in the world tyre industry, with the sale last year of Dunlop to Sumitomo, Goodyear and Firestone have abandoned the viciously competitive new car markets of the U.S. and Europe respectively.

"Anyone who gets out of the original market is condemning himself to death in the medium term," says M Behrouz Chahid-nourai.

But Michelin, thanks to its investments in North America, has a new confidence. "If we had not gone to the U.S., we would be dying," M Michelin says bluntly. Instead, he sees the company as a true multinational with equally successful production in many countries, but also R & D. "We acquire ideas from everywhere," he says. The U.S. is the group's largest market, accounting for about a quarter of sales. France, by contrast, produces only 15 per cent.

Despite its global expansion, the company has stayed in Clermont and its officials still eschew the salons of Paris. Perhaps that helped it avoid nationalisation in 1983. M Michelin says he was very worried at the time, and still does not know why the group escaped.

But the prospect of remaining a very private company in this rather interventionist

country are considerable. Michelin was stunned two years ago when the French military objected to the company developing a military aviation tyre without permission.

M Chahid-nourai says various Government measures since 1981 — stiffer foreign exchange controls, a shorter working week and longer holidays — have cost an extra FF1.5bn a year. The company's French operations remain stubbornly in loss. They may be profitable next year, if the local market improves.

But it would be unthinkable for Michelin to reduce its presence in France. M Michelin was so taken aback by the question that he was at a loss for words. "Nunc est Bibendum," the company's slogan since 1988, which an artist first drew the Michelin man gulping down goblets of nails with impunity, seems apposite. The company faces many obstacles and M Michelin appears unflinchingly determined to swallow them all.

## A drop of the hard stuff

Good news for devotees of the old-fashioned pub. Nearly 5,000 hostilities in England and Wales, all of which date back to 1904 or earlier, are sharing a Government handout totalling £1.65m.

The money is held by a curious institution known as the Licensing Compensation Funds. Back in 1904, Arthur Balfour's Tory Government brought in a Licensing Act to reverse the growth in the nation's pubs. In overstocked areas, some pubs were required to shut up shop. To compensate the losers, the Government imposed a levy on the pubs remaining. The money raised went into various compensation funds up and down the country, which carried on paying out sporadically until 1983, when a pub in Derby was the last recipient.

In 1981 the funds were wound up by Act of Parliament. The job of dishing out the surplus cash went to Peter Dickerson of accountants Howard, Tilly, who was appointed liquidator.

"It's been two years' hard



## Men and Matters

labour," says Dickerson, "but it's amazing how much you learn about the pub trade in the process." The main problem was establishing who was eligible. A number of pre-1904 pubs applied only to be turned down. The most common reason, Dickerson says, was that they had been licensed only to sell beer at the time of the Act. By changing to a full licence later, they lost the pre-1904 licence needed to qualify.

Most of the cash has gone to the brewers, with the biggest single share being for over £250,000. For owners of single pubs the pickings were more meagre — 89 qualified, for an average of £270 each.

## Band of angels

While Charles Saatchi establishes himself as the biggest collector of contemporary art in the country, brother Maurice has chosen the theatre for his arts investment. He is putting around £50,000 into a State of Affairs, a marital comedy, which opens at London's Duchess Theatre tomorrow night.

Maurice, the more extroverted of the two brothers who built up in a decade the largest British-owned advertising agency, saw A State of Affairs when it played at the Lyric, Hammersmith, and liked it enough to speed it on its way to the West End.

Lyric's first West End transfer was Feiffer's America, currently at the Donmar Warehouse, and coming in July is The Seagull, starring Vanessa Redgrave. The shareholders have been told not to expect a dividend for three years, but with Maurice Saatchi joining them so enthusiastically, this could be one group of angels with something to sing about.

## 6d well spent

How much are old paperbacks worth? The question becomes important as Penguin Books, pioneer in the field, prepares to celebrate its jubilee. Allen Lane's experiment in 1935 to bring good reading at sixpence a time to a growing public triggered a publishing revolution and those first ten Penguins will be republished this year in facsimile in a gift box at £14.95.

What would the original be worth in mint or near mint condition? Auctioneers were cagey. Graham Baird of Sotheby's said: "It's difficult to put a price on them. That kind of book is handled and read and you don't find many in mint condition." But recently a copy of Ariel (Andre Mauriac's biography of Shelley and the first Penguin to be published) sold in auction for £30 and it wasn't in perfect condition.

But anybody who has the first ten in a pretty good state could expect to get about £1,000 for them.

For the record, the first lot, besides Ariel, were Hemingway's A Farewell to Arms, Eric Linklater's Poet's Pub, Susan Ertz's Madam Claire, Dorothy Sayers' The Unpleasantness at the Bellona Club, Agatha Christie's The Mysterious Affair at Styles, Mervyn Jones' The

Twenty Five, E. H. Young's William, Mary Webb's Gone to Earth and Compton MacKenzie's Carnival.

## Hard driving

The unremitting efforts of the Japanese Government to liberalise its trade have now ensured that at least three more foreign cars will be imported into the country this year.

Back in May, the Ministry of International Trade and Industry announced it was buying a Buick and a Mercedes for its vice-ministers.

Now the Government agency in charge of import promotion is to buy a Jaguar XJ6 for its chairman. The Japan External Trade Organisation (Jetro) will spend ¥10.7m (£21,000) on the first of British make in its fleet of eight vehicles for executive use.

In a statement apparently aimed at encouraging the discriminating Japanese customer to follow its example, Jetro said: "The Jaguar is used by British Prime Minister, Margaret Thatcher, and is regarded as a luxury car and noted for its reliability."

But exporters clearly still have a long, hard road ahead. Foreign cars account for less than 2 per cent of the Japanese market's 3m cars a year.

## Happy ending

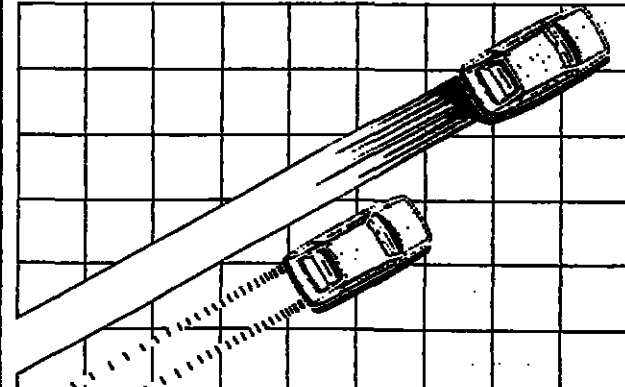
What a difference it should make to us all if the Government gives the go-ahead for plans to create a 55m computer network in Parliament.

According to Computing newspaper: "This will involve rewriting the Palace of Westminster and outbuildings and supplying intelligent terminals to MPs."

## To coin a phrase

Heard in a Chelsea pub: "I don't mind people having money. What makes me sad is that they never use it the way people who haven't got it would use it if they had it."

Observer



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## EUROPE'S COMMUNIST PARTIES



Three European figures: (left to right) Santiago Carrillo, Georges Marchais and the late Enrico Berlinguer

## Why there is a swing back towards Moscow

by David White

Santiago Carrillo, met in Madrid in March 1977, it was billed as the beginning of a major new movement, but in reality it was the beginning of the end.

"Where we went wrong," says Sr. Andreu Claret, spokesman for the PCE and an avowed liberal, "was in presenting Eurocommunism as a decaffeinated version of traditional Marxism."

The break with Moscow, which the PCE began in the 1980s and even before, came late in the other two parties and created serious problems. Both got cold feet, in the French case quite drastically.

Of the three Communist parties that have taken part in post-war governments in Western Europe (in France, Italy and Portugal), the PCE is the one that has been in government most recently and longest.

The PCE, like the others, condemned the Soviet intervention in Czechoslovakia but backtracked soon afterwards. It did not firmly embrace the change in thinking until 1976 when it dropped Marx's tenet of the "dictatorship of the proletariat". But, says M. Henri Fisibin, then a Central Committee member, since forced out of the party, the move brought no real progress in the PCE.

The PCF was then on a joint left-wing platform with the Socialists. But by the end of 1977, when M. Marchais broke off the union of the left, the party had concluded the Socialists were getting the better of it. The next year, the PCF lost its place as the biggest party of the left in France, and started its return to traditional values.

The swing back was confirmed by M. Marchais' expression of "understanding" for the Soviet invasion of Afghanistan and by the resumption of expulsions from the party. Five years ago, M. Marchais was still saying, "Eurocommunism exists, it is alive and will stay alive," but today the only survival from Eurocommunism, remarkably, is M. Marchais himself.

M. Marchais' about-turns have left the PCF, once "the first party in France" at its lowest level since the 1920s. After the war, it polled 23 per cent, and in the 1960s and 1970s, with a legendary voter discipline, held on to 20 per cent of the vote. In last year's European election it was down to 11.2 per cent.

It is a moot point whether its withdrawal from the Mitterrand government a year ago, after three years, was more because of economic policies

or because of internal problems. The leadership has since hardened its position still further, and the party, hounded by a press which is virulently anti-Soviet, is acting like a fortress under siege.

Thwarted in government, deserted by its intellectuals, the party now seems to be banking on a recovery in the Soviet image under Mr. Mikhail Gorbachev. Prospects for reform within the party are dimmer than ever. It is well past the point of no return, says M. Fisibin.

The Spanish PCE has been through an even more dramatic collapse. The strongest organised force in opposition to Franco, just as the PCP was to Salazar, it expected a leading role in democratic Spain. But in the first elections, it polled a disappointing 9 per cent. In 1979, it reached almost 11 per cent with 1.9m votes, but three years later, with Sr. Felipe Gonzalez's Socialists presenting a more modern and more reassuring image, it was down to less than 4 per cent.

Since Sr. Carrillo resigned in defeat to make way for a young miner, Sr. Gerardo Iglesias, the PCE has become a den of internal strife, with the formation last year of a breakaway pro-Soviet party and the recent

exclusion of Sr. Carrillo and his allies from the party's chief organs.

Its leaders came to the conclusion that it was damaging its own identity and unity by being so outspokenly critical of Moscow. At the outset, says Sr. Claret, the PCE needed to show its credentials as a party in favour of democracy. Now we don't need to demonstrate it any more. Relations with the Soviet party have been tense because of the latter's support for the new pro-Moscow splinter group, and no Spanish communist leader has been to Moscow for a long time. But the party now wants to "reconnect".

Meanwhile, Sr. Alvaro Cunhal's PCP, like the Greek "exterior" Communist Party, has stuck with Stalin and still commands 17-19 per cent of the vote. It is more solid than any party in the country and continues to recruit in both industrial and rural areas. But then, its HQ looks out on shanties: Portugal's social conditions are that much more backward, and provide fertile ground.

The French historian Annie Kriegel, who wrote a book in 1977, saying that Eurocommunism would not work, argues that communism can only keep its hold in archaic societies. Eurocommunism was meant as a response to modern conditions but the parties have found it hard to adapt. Much of their base still lies in old, disappearing industries.

Above all, no alternative international movement to Moscow's has emerged. The Italian party—no longer an international attraction, says Mme. Kriegel, "never played the locomotive role it was seen as having. Relations between the parties flourished when the PCF, whose 'Socialism in French colours' has distinctly nationalist overtones, opposed Spanish membership of the EEC. The joint movement never took off."

Oddly enough, the place where Eurocommunism may be now slightly in vogue is Britain. The British Communist Party was never statistically very important and now less so than ever with its membership down to less than 15,000. It split at a special party congress earlier this year.

It was the "Euros" who came out on top, but the old guard retain control of the Party's daily newspaper, the *Morning Star*. The "Euros", however, have had an influence way beyond their numbers through the Party's official monthly journal, *Marxism Today*, particularly in trying to bring together a broad left in opposition to Mrs. Thatcher's Conservative Party. The journal has a certain cachet in the way that the Eurocommunists on the Continent used to have several years ago.

## Training

## Britain should follow the 'driving test' formula

By Ronald Dore

THE BELIEF in the supreme virtues of competition is much overdone in these days of Thatcherite marketism. But there are a good many nooks and crannies in our society where professional monopolies get away with murder. I mean those who manage to turn what must be a certification monopoly into a monopoly over training—and to grow fat on the proceeds.

In some areas their power has been resisted: the driving licence, for instance. The monopoly power to certify is retained by the state. It has to be so that the driving licence can be made to have the same meaning everywhere. But still the driving schools have not managed to make it compulsory to take their courses first. How one gets a driving competence to pass is still left to individual initiative. All you need is the use of a car, a friendly, tolerant and iron-nerved relative, and £14.40—a sum which actually covers the whole cost of testing—all salaries, the superstructure necessary to maintain standards, etc.

Forklift loaders may be a bit less lethal than cars, but manipulating them is a skill, and those who drive the things without it can waste millions of pounds a year. So what can a small employer do if he wants to give his employees an incentive to become really competent in their job, to give them recognition and a sense of pride and accomplishment?

He can contact a licensed tester—with powers delegated to him by the Road Transport Industry Training Board—who is also an instructor. He will give a three-day training course for two at £400. But you can be pretty sure they will get a certificate on the third day. Flexible standards, you say? Perish the thought. The tester has to go back for a three-day recertification course at RTTB approved centres every five years.

Alternatively, for £1,000 an employer could send one of his own employees on a course which would give him the right to train and to test. All that for a marginal improvement in the way his forklift loaders are driven—and a

big increase in the probability that his now certificated employees will be poached by someone else. The deterrents are obviously strong.

Why do we create such deterrents at the expense of competence? Why not the driving test formula, separating testing and training? Regular circuits of testers available to test on employers' premises, or at special skill-test centres: training left to employers to arrange. Adequate and less costly.

Why is it not done that way? Why do we allow anyone to

How one gets a driving competence to pass is still left to individual initiative

combine a monopoly over certification with a monopoly over training? The answer lies deep in history. In countries with a strong state, like West Germany and Japan, and even the old New England states in the U.S., the public interest in competency—the shared interest in protecting ourselves from quacks and bunglers—is firmly looked after by the Government which organises a wide range of skill-testing and certifying systems.

In weak-state Britain, only in extreme cases—when it is a matter of driving cars that can kill people or pharmacies that sell poisons—does the state step in. For the rest, British society is a jumble of competing, self-interested occupational groups organised into institutions: institutions, guilds, unions, associations, all claiming privileges of monopoly in exchange for pretensions of their devotion to the highest ethical standards in service of the public.

The mystique of the arcane specialism, of self-regulation dedicated to the highest purposes, is a powerful one. In the case of a fine skill-training industry, the core of the mystique is the thesis that teaching is a very specialised skill. Any fool can drive a forklift truck, but only very special people, after very rigorous

training can teach people how to drive a forklift truck. In fact, for most skill training, being a good teacher is 90 per cent patience and kindness, and only 10 per cent specialist tricks of the teacher trade.

And yet the training industry manages to maintain its mystique and get away with its monopolies. It is ironic that it should do so in Britain where the generalist tradition of the Civil Service—like that of Japanese industrial management—rejects the inviolability of specialist professional preserves.

If we are serious about raising standards of occupational competence in this country, then we surely need to make much more use of the driving test formula—let public funds take care of testing its integrity and validity, and let individuals and organisations organise the training as best they might. New developments in distance-learning (and distance-testing with video-cameras) make it all the more feasible to do so.

At present it is all going the other way. Massive resources are going to support training; almost none for testing. The Engineering Council, for instance, might be making its own "bar exams" to establish a consensus on minimum competence levels. Instead, it is busy awarding licences to teachers not the taught—accrediting internally—assessed courses up and down the country.

Likewise, the substantial funds—around £1bn—about to be committed by the MSC for the extended YTS scheme and approved by the Government on Monday. There is a danger that they, too, will end up supporting more and more internally-assessed modules on "work orientations" and "life skill enhancement"—rather than, say, preparation for the City and Guilds numeracy test—or a forklift truck driver's certificate. Good for the training industry—but at the cost of confirming the widespread view of the YTS as what the French call a "formation parking"—"courses to keep 'em off the streets."

The author is assistant director of the Technical Change Centre.

## Interest rates and industry

From the Managing Director, Advance Types (UK)

Sir—Some confusion appears to have arisen about the impact of high interest rates on companies following Mr. Nigel Lawson's reply to the CBI's call for a 2 per cent cut in base rates. What confuses me, however, is that there should be a debate at all.

Of course, the Chancellor is right to stress the importance of keeping wages settlements, or more particularly the unit costs of labour, under control. Every-one who has the responsibility for running a company is only too well aware of this, and I can assure him that we industrialists are making every effort to achieve the right results.

But even if this drive is successful, it is to be assumed that we still have to put up with unacceptably high interest rates? Surely we need action in both areas. The difficulty is that while industry can continue to work on pay, it has no control over interest rates. Wage settlements will vary according to company circumstances—interest rates hit right across the board, whatever the current trading position of the business. What is more, they leave UK companies at a distinct competitive disadvantage when the base rate level is compared to those abroad.

We could appreciate the need for action earlier in the year, when there was a need to protect the £ and to save us from the possibility of another unhealthy dose of spiralling inflation, but the protection has gone on for far too long. Certainly there has been some improvement, but this is from an historically very low base and it does not yet provide adequate means for the additional investment needed to sustain the recovery.

The Chancellor in any event cannot justify a simple comparison of cost to industry between interest and pay rates. The high interest rates are supporting a high pound, and it is this high pound that is causing the major problem for manufacturing, exporting, companies. For my own company, the difference in the exchange rate, over the last six months, with the German Mark and French franc, is costing more per month than 2 per cent of the interest rates costs in a year. That is a cost to be faced, or the market has to be handed back to the Japanese, Americans, Taiwanese, et al. What is the point of a duty-free EEC when we have a Treasury policy that imposes a 10 per cent surcharge on our exports to our major market during 1985?

The CBI's case for a 2 per cent reduction in interest rates is amply justified and to dismiss it is to seriously undermine the basis that has been

## Letters to the Editor

established for sustainable growth. D. A. Ayres, Vantage Works, Abbey Meadows, Leicester.

## Making the law accessible

From the Editor, Court Judgment Service

Sir—Rachel Davies' article (July 1) is timely and perceptive. However, she does not touch on the sheer difficulty, and at times downright impossibility, of ever actually discovering just what decisions and judgments have been given in what Courts. Even more difficult is the task of attempting to discover in advance just what cases, with what point of law as their subject matter, are due to be heard. Only the House of Lords stands apart from this criticism, but very few cases are actually heard in their Lordships' House.

I have spent many years now trying to crack the system. Ultimately it all comes down to getting "to know someone" who knows what is going to come up. That, however, works less than perfectly. I usually find myself going through round-and-round cardboard boxes in the Royal Courts of Justice to see what of interest has cropped up since my last voyage of discovery. Even this is much less than perfect, and means journeys to several rooms in the warren-like Royal Courts. I still manage to discover cases of no small value which have failed to catch the eye of the law reports and law reporters.

Do we not have computers? Cannot, therefore, someone in the Lord Chancellor's department now investigate the following plan? All cases to be heard in the Royal Courts should be immediately placed on a computer along with a brief (it can be done in 10 words) breakdown of what the case involves and the reporter from whom it may be obtained. The computer should also be indexed under subject matter (eg. unfair contract terms, employment, landlord and tenant). The display terminals should then be made available to the public in the entry hall of the Royal Courts. That way the administration of the law could find its way to the 20th century. That way, the law would become accessible to all.

R. G. Lawson, 56, Solent View Road, Cores, Isle of Wight.

## Car pollution and engine size

From Mr. E. R. Gurney

Sir—The outcome of the Milan summit regarding the

amendment of the Treaty of Rome has tended to obscure the provisional agreement reached, after much discussion, in Luxembourg on car engine size limitations for the various measures required to limit pollution. In particular, it appears that engine sizes below 1,400cc are to escape, and one is forced to ask why an engine size of 1,400cc has been provisionally agreed and not 1,300cc, which happens to be the engine size linked to insurance categories and, in the UK, also one of the bands for the tax scales of company cars.

The major UK manufacturers and assemblers, Austin Rover, Vauxhall and Ford and, on the Continent, Fiat and Volkswagen, have accordingly established their designs in a band up to 1,300cc.

Why then the 1,400cc limit? Of the French motor manufacturers, Renault has an engine size of 1,300cc and Peugeot an engine size of 1,360cc powering Citroën, Peugeot and Talbot cars—both of these engine size limits representing the majority of the cars produced by these respective companies.

Yet again, the French negotiators have gained a significant victory over their competitors and it appears to make no difference whether it is a socialist or right-wing government in power. The men engaged on negotiating the points that really matter have done their homework and argue their case convincingly.

Mr. William Waldegrave should not need, as is reported, to withhold consent pending further talks with the UK motor industry. He should have known the commercial advantage of negotiating a limit of 1,300cc and stuck to it at Luxembourg.

E. R. Gurney, 30, Nilsom Street, Bath.

## Black workers in South Africa

From the MP for Coventry SE (Lab)

Sir—Currently black workers are being viciously treated by an ICI subsidiary, the AE & CI Chlor-Alkali and Plastics Company in Newcastle, South Africa.

The workers have been given an ultimatum to return to work with a wage increase to which they are opposed, or face dismissal this week.

The strikers, members of the South African Chemical Workers' Union, have stood firm for a living wage and against victimisations. They now face

the prospect of management bringing in "scab" labour, defended by the brutal South African police.

AE & CI is 38 per cent owned by Anglo American Corporation, the huge South African monopoly. ICI in Britain, and Anglo American in South Africa like to present themselves as "enlightened" employers. Their response to the workers' demands in this dispute—like Anglo American's sacking of 16,500 mineworkers in April—gives the lie to this.

Sir John Harvey-Jones, chairman of ICI, is an SDP supporter—a supposed "moderate"—just as Anglo American has traditionally supported the "Progressive" Federal Party. What they are showing by their actions, is that when it comes down to the question of profit the interests of all employers are the same—and that the SDP and PPP will defend those interests also. It is hardly surprising that Sir John, with a salary of £287,000 per year should be listed at No 8 in the Sunday Times league of "big bosses" (19.8.85). His last pay increase amounted to 68 per cent. Moreover, ICI's pre-tax profits rose by 67 per cent in 1983-84.

The actions being taken by AE & CI in South Africa reveal what the bosses would also do in Britain, if they could get away with it. No wonder the SDP is so rabid in its defence of anti-trade union legislation.

More than ever, British and South African workers need to join forces in order to defeat the attacks of the international capitalist class.

Dave Nellist, House of Commons, SW1

## Commodity surpluses

From Mr. O. E. K. Laband

Sir—I would like to comment on Mr. R. Stenton's letter June 29 on "commodity surpluses."

Sending surpluses to Africa on a long-term basis does Africa no service. Handouts or charity take away the dignity of the independent states, the dignity of the people, particularly the dignity and the way of life of the farmer who is capable, independent and proud. The aim must be to help to overcome the temporary setbacks, get back into production and where applicable give help with soil and water conservation.

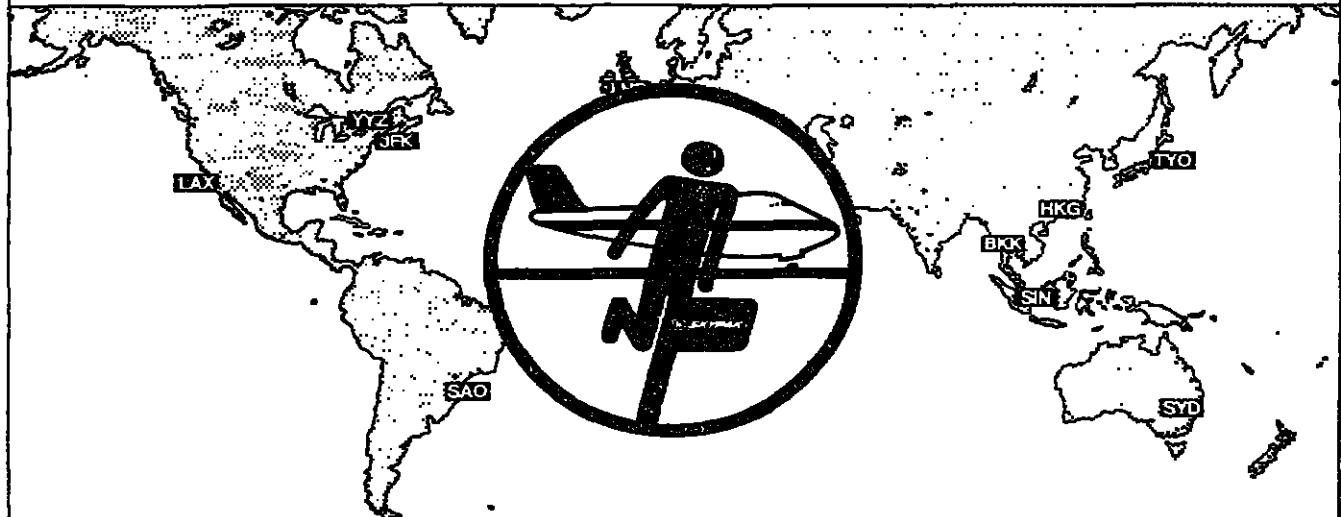
If we did send all of our surpluses, the logistics of transportation and storage in the countries and the distribution to the needy would make this a very wasteful operation, to put it mildly.

Any supply of food must be on an emergency short-term basis, complete with full logistic support to get the "aid" to where it is required.

O. E. K. Laband, Glenora, Earlsferry-Eric, Fife.

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# SECTION II - COMPANIES AND MARKETS

## FINANCIAL TIMES

Wednesday July 3 1985



AGNELLI SEEKS RATIONALISATION IN CAR INDUSTRY

### Fiat backs Europe-wide ventures

BY ALAN FRIEDMAN IN TURIN

SIG GIOVANNI Agnelli, chairman of Fiat, Italy's largest private sector group, yesterday described as "necessary" a Europe-wide joint venture agreement in the car industry. Fiat is now in talks with Ford Europe designed to achieve such an agreement.

Speaking after Fiat's annual meeting in Turin yesterday, Sig Agnelli said that Fiat and Ford Europe, each with 12 to 13 per cent of Europe's car market, could become an important combined force with a quarter of the overall European market share.

He said: "We need to achieve economies of scale. A rationalisation of the European car industry is necessary. Whether we can achieve a successful marriage of Fiat and Ford Europe remains to be seen."

Sig Agnelli said that Fiat group sales would rise by 8 per cent this year, which would mean total 1985 turnover of more than £25,700bn (\$13.3bn). He also predicted higher 1985 profits. Last year, the group more than doubled its net consolidated profits to £1,875bn.

The Fiat chairman declined to say when the Fiat-Ford agreement might be reached, although Sig Cesare Romiti, Fiat managing director, in a recent statement did not



Sig Giovanni Agnelli

rule out the possibility of a deal before year-end.

Sig Agnelli said the European motor industry as a whole was losing \$1bn a year, while the U.S. car industry last year earned \$10bn and Japanese car makers earned \$4bn. The Fiat chairman said that Europe had surplus productive capacity of 2.5m cars a year, representing half of global over-capacity.

Sig Agnelli declined to comment on what form the Fiat-Ford agreement might take - market speculation has centred upon a 50-50 joint

venture between Ford Europe and Fiat's car division, which last year had revenues of £12,878bn, or 54 per cent of group sales.

The need for a Europe-wide joint venture stemmed from the weakness of the European car industry and the need to become more competitive with U.S. and Japanese car makers. The Fiat chairman ruled out the possibility of any venture with a Japanese company, saying Japanese industry represents "a different civilisation, a different world, a different industrial tradition."

Referring to the Fiat-Ford talks, Sig Agnelli said that Fiat's productive systems were better than Ford Europe's and that Fiat had more experience in small cars than the U.S. company.

On prospects for this year, the Fiat chairman said the same as last year, around £14,000bn. This year's total investments would be £2,500bn. Last year, Fiat spent £1,488bn on capital expenditure and £669bn on research and development.

Commenting on EEC measures to limit car exhaust emissions, Sig Agnelli said that Fiat was ready to accept any anti-pollution measures but warned that they would result in higher priced cars.

Asked for his view on the controversy over the attempt by the IRI state holding group to sell its SME food subsidiary to Sig Carlo de Benedetti's Buioni, which has run into political opposition, Sig Agnelli said there was no justification for the Italian state owning a food company and that he was "indifferent" as to who buys SME. He added that in his view privatisation functions better in the UK than in Italy and that, as far as he was concerned, "the more state companies which are sold the better."

When asked whether Fiat would consider a joint venture with another European car maker if the Fiat-Ford talks failed, Sig Agnelli responded: "When I go out shooting, I think of one bird at a time."

Commenting on the recent Milan summit, which resulted in a 7-3 split in favour of convening an inter-governmental conference to amend the Treaty of Rome in order to improve Community decision making, Sig Agnelli said the conference idea "is a modest way of proceeding, but the most we can achieve today."

He praised Italian political stability over the past two years and said that recent elections in Italy had reinforced government stability.

### UBS to consider W. German expansion

By John Davies in Frankfurt

UNION BANK OF SWITZERLAND (UBS) expects to decide by the end of this year how it intends to develop in West Germany.

Dr Nikolaus Senn, chief executive, said yesterday that UBS did not feel "in any hurry" to decide whether it would take over an existing West German bank or set up a new organisation of its own.

UBS is widely rumoured to have been sounding out West German banks for possible acquisitions but Dr Senn declined to disclose any details.

As a sign of the importance it attaches to West Germany, UBS's bearer shares and participation certificates were introduced on the Frankfurt stock market yesterday through Dresdner Bank, West Germany's second largest bank.

The other two big Swiss banks - Credit Suisse and Swiss Bank Corporation - have already come out into the open with expansionist moves in West Germany.

Credit Suisse took over Grunig Bank, based at Ffhr in Bavaria, at the beginning of this year and recently bought into Elfenbank Warburg in Frankfurt.

Swiss Bank Corporation has announced that it plans to set up a fully fledged subsidiary in Frankfurt this year.

Dr Senn said that it was misleading to talk about a Swiss "invasion" of the West German financial scene as if the Swiss had only just discovered it.

UBS has been active in West Germany for decades in co-operation with local banks, but wanted to expand its activities abroad and to keep pace with the internationalisation of the world's major financial markets.

### Nuovo Ambrosiano initiates plan to seek Milan listing

BY OUR MILAN CORRESPONDENT

NUOVO Banco Ambrosiano, the Milan-based successor to the late Roberto Calvi's Ambrosiano group, is asking Euro Mobiliare, the investment bank, to place privately its 47 per cent of voting shares in the La Centrale financial subsidiary. The placing will be a key step in Nuovo Ambrosiano's plan to merge with La Centrale and seek a quotation on the Milan bourse later this year.

The merger involves a highly complex operation which at the first should see a quoted Nuovo Ambrosiano with total capital of around £1,000bn (\$513m), against a current capital base of £754m, and some 60,000 shareholders.

Among the latest developments in the changing shareholder structure of Nuovo Ambrosiano, Credito Romagnolo, a private bank, is to sell half its 8.1 per cent stake to the group of Veneto region banks which has recently become the largest pool of Nuovo shareholders. The Veneto banks at present hold a total of 17.5 per cent of Nuovo - this will

NUOVO AMBROSIANO SHAREHOLDERS	
	Stake (%)
Banca Popolare di Milano	16.2
Istituto San Paolo di Torino	12.5
Banca Nazionale del Lavoro	13.5
Credito Romagnolo	8.1
San Paolo di Brescia	8.1
Popolare di Verona	8.0
Credito Emiliano	4.0
Banca Antoniana	3.3
Popolare di Padova, Treviso, Rovigo	3.2
Popolare di Vicenza	3.0
Bank Total	80.9
36,000 shareholders*	19.1
Total	100

\* These shareholders joined in the recent warrant-for-shares exercise

rise to 21.5 per cent after the Romagnolo acquisition.

The Veneto banks were last year blocked by the Bank of Italy from acquiring a lucrative 44 per cent stake in Banca Cattolica del Veneto from Nuovo. It was this ruling which forced Nuovo Ambrosia-

no to reconsider and go ahead with the La Centrale merger plan.

Nuovo's recent "operation warrant" - under which old Ambrosiano shareholders converted warrants issued in 1982 into shares - accounts for 19.1 per cent of the equity, in the hands of 36,000 shareholders. The remaining 80.9 per cent of the bank is held by 10 banks, of which two public banks - Banca Nazionale del Lavoro and San Paolo di Corino - own 13.5 per cent each.

After Euro Mobiliare places the La Centrale shares, the 47 per cent of La Centrale will become 20 per cent of the newly listed Nuovo group. Thus, the shareholding structure will change yet again, with the 10 banks' 80.9 per cent stake dropping to 60 per cent.

The Euro Mobiliare placing is necessary for two reasons: Nuovo Ambrosiano cannot (after the merger) hold shares in itself, and an attempt to place the La Centrale stake with West German and Austrian savings banks recently failed.

### Bundesbank may allow CD issues

BY OUR FRANKFURT STAFF

THE BUNDESBANK, West Germany's central bank, is considering allowing banks to issue D-Mark certificates of deposit, but any change in policy is unlikely to come into effect for some months and possibly not until next year.

Bundesbank officials have been rethinking their attitude to certificates of deposit - which are widely used in the U.S. and elsewhere - as part of their desire to strengthen West Germany's competitiveness as a financial centre.

Certificates of deposit are, in effect, receipts issued in return for short-term deposits with banks. As they can be traded, they have attracted increasing attention as a

useful form of short-term money market paper.

One of the questions in West Germany is whether they should be subject to minimum reserve requirements, unlike more traditional forms of bank deposits.

Banks must at present set aside a percentage of various types of deposits in minimum reserves.

The Bundesbank has taken the view that its control of monetary policy would be weakened if it allowed banks to issue certificates of deposit without requiring them to set aside any corresponding minimum reserves.

The central bank has also been concerned in the past that such fi-

ancial instruments would increase the role of the D-Mark as an international reserve currency, exposing it more to possible fluctuations. For some time, however, the Bundesbank has been taking a more relaxed attitude to this type of argument.

It is believed that the whole question is to be examined at sub-committee level within the Bundesbank before possibly coming to the policy-making central council.

Even if the Bundesbank decided in favour of permitting the issuance of certificates of deposit and subjecting them to minimum reserve requirements, such a move would require legislative action by the federal parliament in Bonn.

### Ford set to make new engines in UK

BY JOHN GRIFFITHS IN LONDON

FORD is expected to announce today that its Dagenham plant in the UK will build an entirely new family of lean-burn engines, destined to go into production in 1987.

Mr Daniel Goussard, chief executive of Ford of Germany, disclosed two weeks ago that the project - in which Ford is investing more than £100m (\$128m) - would not be going to Cologne.

The engines, of 2 litres and with twin overhead camshafts, are expected to take Ford well down the road towards meeting the tough new emission standards for cars announced by environment ministers in Luxembourg at the end of last week.

Ford's decision resolves what is believed to have been considerable behind-the-scenes rivalry between UK and West German politicians and unions seeking to secure the project because of the considerable number of jobs that may be in-

involved. Output of the engines, the unions believe, could be about 200,000 units a year.

Although the company last night refused either to confirm or deny that an announcement is imminent, the choice of Dagenham gives Ford considerable further grounds for allaying long-voiced union concern that it might be retrenching its operations at the plant.

Deere, the U.S. equipment manufacturer, has reached an agreement

on the rationalisation of its engine division under which it will hand over distribution to Detroit Diesel Allison (DDA), a subsidiary of General Motors.

The deal was arrived at during separate discussions on the possibility of forming a joint venture for the manufacture and sale of diesel engines. The two companies, among the largest heavy diesel engine producers in the U.S., said that this study is still continuing.

### EEC leads rush for Eurobonds

BY MAGGIE URRY IN LONDON

MORE new issues flooded into the Eurodollar bond market yesterday, with the European Community topping the list with a \$350m five-year deal. The mandate was won by Bankers Trust International and it is thought that the proceeds are to be swapped into floating rate funds.

Bankers Trust priced the issue to give the EEC an all-in cost of around 35 basis points over U.S. Treasury securities. The coupon was set at 9 1/2 per cent and issue price at 99 1/2 with total fees of 1 1/4 per cent. The maximum coupon is 12 1/2 per cent and front end fees total 78 basis points.

Yokohama is selling the "cap" on and thus achieving funding at below London interbank offered rate (Libor). However, investors have had many such issues from which to choose recently and the issue was moving slowly, quoted at a level just outside the gross fees.

The other floater launched yesterday was for Bergen Bank, led by Merrill Lynch. This totals \$75m and also has a 12-year life, with call protection for 10 years. It pays interest at 1/4 per cent over six month Libor, with the rate reduced every month allowing investors to fund their holdings from one month money, which is usually cheaper. The maximum coupon is 12 1/2 per cent and fees total 87 1/2. The lead manager was quoting the bonds at around 99.30, inside the fees.

The convertible sector was enlivened by an issue for Sumitomo Bank - the second of the Japanese city banks to launch a convertible. This, like Mitsubishi Bank's, met strong demand and traded around 106 compared to a par issue price.

The \$120m issue has a 15-year life and the coupon is indicated at 2 1/4 per cent - Mitsubishi indicated 3 per cent - with a conversion premium likely to be about 5 per cent. Fees total 2 1/2 per cent. Book runner on the deal is Sumitomo Finance International.

Later this week Banca del Gottardo will launch a SwFr 100m five-

year convertible for Sumitomo Bank on the Swiss foreign bond market.

The World Bank launched issues in both the D-Mark Eurobond market and on the French domestic bond market. The DM 600m issue was led by Deutsche Bank and has a 10-year life with a 7 per cent coupon and 99 1/2 issue price. It was well received and traded around 99 1/2, well inside the 1 1/4 per cent selling concession.

The FF 1bn deal was led by Banque Paribas and is the World Bank's first on the French domestic market. This has a 12-year life and a coupon of 10.90 per cent with the issue price set at 99.67. It is non-callable, and the yield to maturity is 10.95 per cent.

The World Bank is also due to sign a Y300m 12-year Samurai bond issue, managed by Yamaiichi Securities, today.

D-Mark bonds were unchanged or slightly better yesterday, though turnover was low. Swiss franc foreign bonds were also quiet yesterday, with the market held back by the lack of a fall in short-term interest rates. Olivetti's SwFr 100m 10-year issue, with a 5 1/4 per cent coupon, started trading yesterday, closing at around 99 1/2 compared to the 100 1/2 issue price.

Credit Suisse announced a SwFr 100m private placement for Canada Development Corporation with a five-year life and a 6 1/4 per cent coupon. Issue price was set at 100.

UBS set the final terms for Nippon Telegraph and Telephone's SwFr 150m 10-year deal at a 5 1/4 per cent coupon and 99 1/2 issue price compared to the indicated yield of 5 1/4 per cent.

United Technologies, the U.S. diversified engineering group, is raising £1 100m on the Euroguilder bond market with a five-year issue led by ABN. The coupon was set at 7 per cent and issue price at 100.

International bond service, Page 16

### Asea set for U.S. acquisition

By David Brown in Stockholm

ASEA, the Swedish electrical and electronics group, has signed a letter of intent to acquire Parametrics, a subsidiary of Barry Wright of the U.S., with annual sales of \$80m. The price has not been disclosed.

Parametrics is a leading manufacturer of electronic speed controls for low and medium power electric motors. The main applications for these products are in the process control, factory automation and energy conservation fields, which Asea has targeted as business priorities.

"Parametrics will substantially increase our activities within this market," says Mr Sune Carlsson, Asea's executive vice-president. "We will also obtain a broader technical and commercial base for industrial process development and automation." He added that Parametrics' marketing organisation would play an important role in Asea's future expansion in this field.

The company has three manufacturing facilities in Connecticut and 300 employees.

### BHF Bank confident for full year

By Our Financial Staff

BERLINER Handels- und Frankfurter Bank, West Germany's biggest merchant bank, said yesterday that satisfactory results were expected for the current year.

The bank, which in January announced plans for a DM 76.2m (\$35.1m) rights issue, said parent bank partial operating profits for the first five months of 1985, excluding trading, were fully maintained. Parent bank partial operating profit was DM 51m for the five months compared with a similar figure representing 1/2 of the full 1984 result.

Interest surplus was DM 95m and commission surplus DM 47m, against DM 91m and DM 45m respectively. Personnel costs rose to DM 61m from DM 57m and other operating costs moved up to DM 30m from DM 28m.

The bank said trading results were strong in securities and currency business and full operating profit was markedly higher compared to 1/2 of 1984. The end-May balance sheet stood DM 12.5bn against DM 11.5bn at the close of 1984.

### Further asset disposals by Champion

BY OUR FINANCIAL STAFF

CHAMPION International, the U.S. forest products and building materials group which is now the world's largest paper producer, yesterday announced a further series of asset disposals as part of a continuing divestiture programme intended to reduce the \$1.2bn debt incurred when the company bought St Regis last year.

On the paper products side, Champion announced the sale of its Hemlock Paper Company subsidiary of Carlyle Investments, of Connecticut, and the proposed sale of

its kraft paper mill at Tacoma, Washington state, to Simpson Paper of San Francisco. In neither case was a price divulged.

Champion also announced plans to sell some of its construction materials interests, forming part of its Wheeler division, to a new company formed by a group of private investors and including some members of the present management. In this case, too, the company gave no details of the value of the deal.

In mid-May, St Regis Interna-

tional, the UK arm of St Regis, was bought out by its management for some £30m (\$39m) in one of the largest transactions of its kind ever carried out in Britain.

Champion acquired St Regis as a "white knight" in the late summer of last year in response to a hostile bid for the company by Mr Rupert Murdoch's News Corporation. Champion agreed to pay \$1.8bn, and saw its newly consolidated earnings rise by 50 per cent in the first quarter of this year, thanks to St Regis' contribution.

This announcement appears as a matter of record only.

New Issue

Canadian \$75,000,000

**GENSTAR FINANCIAL CORPORATION**

(Incorporated under the laws of Canada)

11 3/4% Debentures due June 28, 1995

Issue Price 100%

Wood Gundy Inc. Dominion Securities Pitfield Limited Orion Royal Bank Limited

Amro International Limited Bank of Tokyo International Limited  
Banque Générale du Luxembourg S.A. Berliner Handels- und Frankfurter Bank  
CIBC Limited Crédit Lyonnais  
Credit Suisse First Boston Limited Dresdner Bank Aktiengesellschaft  
Generale Bank Hambros Bank Limited  
Handelsbank N.W. (Overseas) Limited Manufacturers Hanover Limited  
Merrill Lynch Capital Markets Salomon Brothers International Limited  
Shearson Lehman Brothers International Swiss Bank Corporation International Limited  
S. G. Warburg & Co. Ltd. Yasuda Trust Europe Limited

Algemene Bank Nederland N.V. BankAmerica Capital Markets Group Bank Gutzwiller, Kurz, Buegner (Overseas) Limited  
Bankhaus Hermann Lampe Bank Leu International Ltd. Bank of Montreal Bank J. Vontobel & Co. AG Banque Bruxelles Lambert S.A.  
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Crédit Commercial de France Crédit du Nord Creditanstalt-Bankverein Dai-ichi Kangyo International Daiwa Europe Limited  
Dewfin S.A. DG Bank European Banking Company First Interstate Limited  
F. van Lanschot, Bankiers N.V. Genossenschaftliche Zentralbank AG Girozentrale und Bank der österreichischen Sparkassen  
Goldman Sachs International Corp. Hill Samuel & Co. IBJ International Kipper, Peabody International  
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Sanwa International Sarasin International Securities Limited J. Henry Schroder Wagg & Co. Société Générale  
Schweizerische Hypotheken- und Handelsbank Sumitomo Finance International Standard Chartered Merchant Bank  
The Taiyō Kōbe Bank (Luxembourg) S.A. Toronto Dominion International Union Bank of Switzerland (Securities) Limited  
Verens- und Westbank Westfalenbank Yamaichi International (Europe) Limited  
June 1985





## INTL. COMPANIES &amp; FINANCE

## Thais sift ruins of Mae's pyramid

IN AN air force enclave on the outskirts of Bangkok, under the roof of a cavernous basketball hall, policemen sit at a dozen desks methodically dealing with complaints about Thailand's most publicised financial scandal.

Scores of well-to-do air force officers and middle class civilians patiently give details of the savings they willingly handed over to a "chit fund" on promises of fantastic returns. Many stand to lose everything they own, having mortgaged their houses to raise funds to deposit, and the scheme itself has been linked directly to the finance company crisis which hit Thailand in late 1983 and 1984.

At the heart of the scandal is Mrs Chamoy Thippoo, popularly known as Mae Chamoy. She is the wife of a former air force officer and once a government clerk, and last year appeared regularly on the front pages of local newspapers and attended royal functions.

She is now being held by the police crime suppression division and as local reports rather eerily put it, "being given maximum security to prevent any murder attempt." One account says her former clients have been given the names, addresses and telephone numbers of her relatives, who are

also presumed to be at risk. Details of how the scheme worked remain vague. Depositors, including many air force personnel, received interest payments equivalent to just over 6 per cent a month. Amounts ranging from several

**Depositors in Mae Chamoy's "chit fund" scheme face losing everything reports**  
Chris Sherwell in Bangkok

thousand to several million baht (as much as \$100,000 each) were put in, and these would double in 16 to 17 months, provided the "pyramid" of depositors kept growing.

The scheme had operated for years before it came to public light in the wake of a liquidity crisis which convulsed Thailand's less well-backed finance companies. It emerged that ever larger numbers of the public were shifting money into funds like Mae Chamoy's—at one point the size of her fund alone was put at up to 8bn baht which, if true, made it a financial force to be reckoned with.

Bankers complained, and the Government itself called the funds a threat to public order. Recognising the dangers of such

pyramid schemes, it made the courageous but necessary decision to ban the funds by royal decree. Protests followed, notably from certain quarters of the powerful military, and it was at this time that Mae Chamoy

reassured nervous depositors. Last week she was finally handed over to the police. It has also emerged that 4bn baht held by Mae Chamoy in regular bank accounts up to January this year has disappeared. Depositors who had already given up on interest payments but hoped to retrieve their principal thus face the loss of everything, while the suspicion persists that certain important clients, including institutions, have managed to get their deposits back.

Although the losses may seem like an inevitable consequence of unrestrained greed, the social implication of the fund's collapse could be severe. Bangkok's middle class, and the Thai air force officer corps, have suffered embarrassment as well as hefty financial penalties, a potentially combustible combination.

As for Mae Chamoy, she appears to have been thrown to the wolves. She will almost certainly be tried for fraud and breaking the ban on chit funds. She will probably be sentenced to several years in jail. Though her greatest defence is her knowledge of the true masterminds behind her ultimately impossible scheme, right now she looks as helpless as her former clients now complaining to the police.

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June 20, 1985

**Goldman  
Sachs**

## Dunlop India profit fails to cover dividend

DUNLOP INDIA, now under the effective control of Mr R P Goenka, a local industrialist, has reported a further profit setback for last year from an already bad 1983 performance, writes P. C. Mahanti.

On sales down from Rs 3.2bn (\$258.2m) to Rs 3bn, the net earnings of Rs 17.1m were in-

sufficient to cover the dividend. This was despite a halving of the pay-out to 10 per cent. Management will draw on reserves to pay the remainder. The company received a hostile reception from shareholders at its annual meeting. This was held under the chairmanship of Mr R. Chhabria, the non-

resident Indian who joined with Mr Goenka in the take-over earlier this year.

He announced plans for modernising the company's operations and introducing Japanese technology for tyre making which would substantially reduce costs and improve the competitiveness of

Dunlop India's products in a growingly difficult domestic market.

Licensed domestic capacity of 15m tyres annually exceeds actual demand by at least 5m units. According to Mr Chhabria, this excess capacity will prevail at least until the end of the decade.

## AT&amp;T in telecom venture with Fujitsu and Hitachi

BY YOKO SHIBATA IN TOKYO

FUJITSU and Hitachi, Japan's two major computer makers, are to participate in a value added network (VAN) telecommunications joint venture with American Telephone and Telegraph (AT&T).

The two Japanese companies will be linked in Japan ENS, a joint venture company to be formed by AT&T and 16 Japanese partners including the Industrial Bank of Japan (IBJ) and Mitsui & Co., the trading house.

The venture is due shortly to seek government permission for a service of as yet unspecified extent which it hopes to begin by this autumn at the earliest. Fujitsu and Hitachi are expected to provide technical assistance for the service, called "NET 1,000," and will co-operate in marketing.

By the time the network goes into operation, the financial contribution by AT&T is projected to account for half the total ¥10bn (\$404m).

Following the deregulation of the country's telecommunications market from last April, VAN services such as these are expected to form the largest area of commercial opportunity for domestic and foreign companies in the sector. Even though Nippon Telegraph and Telephone (NTT), the former state monopoly, will remain the main supplier, other operators can potentially account for a third of Japan's VAN market for special services. This is pre-

dicted to total ¥300bn in the current financial year, and to expand by more than 20 per cent annually to some ¥800bn by 1990, according to Fujitsu.

The Government has delineated three types of communications networks that can be set up by these competitors:

● Common carriers that own, operate and lease public communication circuits.

● Nationwide VANS where special operators can serve an unspecified number of subscribers after being granted a licence. It is into this category that the latest venture falls.

● Smaller van series for specific geographic areas, a group of computer users, or intra- or inter-company use. Operators of these need only submit notification to the ministry.

A total of 118 companies including IBM Japan, a wholly owned subsidiary of the U.S. computer group, to register these fast "general type two" telecommunications operations, where requirements for facilities, technology and supervision are much less rigorous than the "special type two" business which AT&T and its partners seek to enter.

The participation of Fujitsu and Hitachi, which account for nearly 50 per cent of the Japanese computer market, will form a formidable alliance. In addition, AT&T is expected to ask Toshiba to join in the marketing of the service.

## Bank Bumiputra loans to Carrian totalled \$292m

THE MALAYSIAN authorities have specified the extent of the "abnormal" loans extended by the state-owned Bank Bumiputra Malaysia to the now defunct Carrian Group of Hong Kong, Reuters reports from Kuala Lumpur.

Bumiputra Malaysia Finance (BMF), a subsidiary of the bank, made loans to Carrian totalling US\$292m between December 1979 and June 1980, according to Tan Sri Ahmad Noordin, the country's auditor general.

"The loans were highly abnormal because they were given to just one company within a short period of time and made against normal banking practices," he said. The

auditor-general heads a three-man committee set up by Bank Bumiputra to investigate more than \$1bn in irrecoverable loans made by BMF.

He made the comments after submitting the committee's latest confidential brief on the loans to Bank Bumiputra. This is the third part of a report which has yet to be finalised and made public.

Last January, the committee accused six BMF executives of corruption and called on the authorities in Malaysia and in Hong Kong to investigate and charge them in court. The executives have since resigned. In September Petronas, the national oil company, bailed out Bank Bumiputra by taking on its debt and injecting \$180m.

## Trafalgar Housing back in the red

By Our Financial Staff

TRAFALGAR HOUSING, the debt-burdened property developer, returned to net losses in the year to March despite more than tripling its turnover.

The attributable deficit of HK\$2.88m (U.S.\$371,000) compared with profits the previous year of HK\$15.20m. The 1983-84 result was struck, however, after extraordinary credits of HK\$43.88m. Turnover was HK\$197.73m against HK\$68.46m.

Trafalgar Housing, which has no connection with Trafalgar House of the UK, has been marketing Macao property as a means for Hong Kong investors to obtain Portuguese residence rights.

Presidential Address

## Mining: Record earnings in a difficult year

*This is an abridged version of the Presidential address given by Mr. G. Y. Nisbet at the 95th Annual General Meeting of the Chamber held in Johannesburg on June 25, 1985.*



For the South African mining industry and for South Africa the past year has been characterised by paradox and irony: in the face of difficult market conditions the mining industry has achieved record earnings, while at the political level, the Government's reform initiatives have met with domestic unrest and negative response abroad.

The comparative success achieved by the mining sector, with favourable exchange rates boosting revenues in 1984 by 17 per cent to a record R10 000 million, was the only highlight in an otherwise unsatisfactory year for the South African economy. Although the real gross domestic product increased by 4.5 per cent in 1984, almost all the growth occurred in the first quarter of the year and was followed by six negative months accompanied by accelerating inflation and growing unemployment.

The widespread domestic unrest and violence in recent months would seem to stem from a complex mixture of factors, including genuine frustration,

disillusionment and sheer economic hardship among blacks, and in these circumstances deliberate efforts to destabilise the black community and to create a revolutionary climate in fertile soil.

I believe that these negative attitudes among the black population could be changed once the Government, which is committed to progressive social, economic and political reform, gets more actively to grips with the fundamental issues in purposeful discussion with black leaders who enjoy the genuine support of their communities.

## MINERAL SALES

Gold is by far the most important sector of the South African mining industry, employing nearly 70 per cent of the total workforce and earning over 60 per cent of all mining revenues. For the gold mines 1984 was a mixed year, with the average dollar price of gold falling by nearly 15 per cent from \$425 in 1983 to \$361 an ounce in 1984, but with output expanding and rand revenues reaching a record R11 580 million, some 13.6 per cent higher than the previous year.

Coal, which in recent years has become the second largest revenue earner after gold, last year recorded an increase of no less than 30.8 per cent in the value of sales which reached R3426 million.

For both silver and diamonds 1984 was a poor year for producers with the value of sales of both minerals declining sharply, despite the falling value of the rand. Silver sales for 1984 at R66 million were 6.8 per cent down on the previous year and diamond sales valued at R515 million, some 3.6 per cent below the previous year's figure of R538 million. South African producers of platinum group metals experienced a good year in 1984 despite substantial falls in the dollar price of platinum and palladium. Revenues were boosted not only by the falling value of the rand but also by dramatic increases in the price of the 'lesser' PGMs with osmium, for example, recording an extraordinary five-fold increase in price during 1984.

Sales of metals and minerals other than gold, silver, diamonds and coal in 1984 were valued at R3438 million, some 21 per cent more than the previous year's figure of R2838 million. Of the major items in this sector only asbestos figures showed a decline, with sales valued at R101 million, 8.2 per cent lower than the previous year's figure of R110 million. A general improvement in economic activity amongst OECD countries provided a tentative but welcome boost to the demand for base metals in 1984, providing South African suppliers with firmer dollar prices and substantially improved rand earnings. In contrast to a dismal 1983, metals associated with the ferrous industries, especially manganese, chrome and titanium, did particularly well in 1984 with volumes, prices and revenues well up on the previous year.

## GOLD PROMOTION AND MARKETING

In yet another difficult year for the world gold market, the third in succession since 1982, the gold mining industry can be well satisfied with substantial increases in gold consumption in both the jewellery and industrial demand sectors, respectively. On the other hand it was a particularly depressing year for the investment sector as is reflected by the 25 per cent decline in Kruggerand sales. This year promises to be even better than 1984 for industrial gold demand, but until the U.S. dollar reverses its upward trend and inflation again becomes a matter of concern in the minds of consumers in Western Europe, the United States and Japan, gold will remain unattractive to the investment community.

## EMPLOYMENT AND WAGES

While most sectors of the economy faced severe economic recession in 1984 the level of employment in the South African gold mining industry reached an all-time high and wages for the black workforce continued to increase in real terms.

The South African mining

95th Annual General Meeting of the Chamber of Mines of South Africa

industry as a whole relies on a high proportion (about 90 per cent) of unskilled and semi-skilled black workers who are drawn from throughout Southern Africa.

The importance of this in human terms to South Africa and its neighbouring countries or territories cannot be overstated, but in random statistical terms mining and quarrying in 1984, with a workforce of 717 000:

- \* Accounted for one in every seven people in active employment in South Africa outside of agriculture;
- \* Contributed, directly and indirectly, about 18 per cent of South Africa's gross domestic product;
- \* Provided a lifeline estimated at R1 billion to labour-supplying territories through wages and savings remitted home by mineworkers; and
- \* Ensured the economic survival of about 3 million dependents of black mineworkers.

## ECONOMIC OUTLOOK

Although the domestic economy is likely to remain under severe pressure over the next year, there are indeed signs of improvement. There is now a definite trend towards lower short-term interest rates. Eventually this must place downward pressure on long-term rates as well. There has been a recent predominance of bullish sentiment on the Johannesburg stock market, which suggests a renewed confidence about the outlook for the economy. Perhaps these are straws in the wind, but it would be foolish to disregard them.



The full text of this address is available from:  
The General Manager  
Chamber of Mines of South Africa  
P.O. Box 809  
JOHANNESBURG 2000  
SOUTH AFRICA

**Wells Fargo  
& Company**  
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Floating Rate  
Subordinated Notes  
due 2000

In accordance with the provisions of the Notes, notice is hereby given that for the interest period 3rd July, 1985 to 5th August, 1985 the Notes will carry an interest rate of 7 7/8% per annum. Interest payable on the relevant interest payment date 5th August, 1985 will amount to US\$72.14 per US\$10,000 Note and US\$369.44 per US\$50,000 Note.

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## INTL. COMPANIES &amp; FINANCE

## Hoechst develops savoir faire in its French investments

BY JOHN DAVIES, RECENTLY IN PARIS

**A man of beaming bonhomie and grand flourishes, M Monod (right) represents the Hoechst spirit in France, presiding over the West German chemical and pharmaceutical group's largest operation outside its home terrain.**



"THE FRENCH could learn quite a lot from the German chemical industry," says M. Henri Monod. "In management, yes," he hastens to add, "not in brilliant ideas."

A man of beaming bonhomie and grand flourishes, M Monod represents the Hoechst spirit in France, presiding over the West German chemical and pharmaceutical group's largest operation outside its home terrain.

In the Hoechst tower block at La Defense, with a sweeping view across Paris, M Monod praises stability in management as one of the strengths of the West German chemical industry. Hoechst, for instance, has only now got its third chief executive since its independent post-war era began 33 years ago, when it was carved out of the old IG Farbenindustrie combine. The new head, Prof Wolfgang Hilger, took over earlier this month from Prof Rolf Sammet, whose 16 years at the helm followed Prof Karl Winnacker's 17-year stint.

"But at Rhone-Poulenc," says M Monod, referring to the big state-owned French chemical group, "we have had six chief executives since the war. And all of them wanted to change the policy. That is typically French."

M Monod, however, is highly protective of French interests and sensitivities, and feels a particular affinity to Roussel Uclaf, the largely pharmaceutical and agro-chemical concern where Hoechst has a delicate partnership with the French Government.

"We have a lot of brilliant

arrangement has worked well. Hoechst, which was attracted to Roussel Uclaf by its drugs research, kept 51.5 per cent of the voting capital, but the French state was conceded control of the supervisory board, although both sides have proclaimed a "hands off" policy.

The French political tide is turning against the general idea of nationalisation, while pressure on state finances has led to concern about the ability of some government-owned groups to fund further expansion.

In a proposal to split up the 40 per cent state holding in Roussel Uclaf, the French Government is reported to envisage giving off a small part of its stake to Compagnie Financière de Suez.

#### Caution against changing too much

Ideas at Roussel Uclaf," he says expansively. The concern, he asserts, is now reaping the benefit of a lot of investment and research effort.

For this reason, he counsels caution against changing things too much, too frequently, which he stresses is a personal view. The compromise agreement under which Roussel Uclaf escaped nationalisation is expected to be reviewed by the French Government and Hoechst next year. But various factors seem to encourage Hoechst executives in their relaxed attitude to the talks.

For a start, they argue that the existing sophisticated

Although Hoechst keeps a diplomatic distance, Roussel Uclaf makes up a sizeable part of the group's French operations.

Hoechst's French activities produced sales revenue of FF16.8bn (\$1.82bn) last year—about a cost of FF5bn, is one of only three operated by Hoechst in Europe to produce substances for use in detergents which, it is claimed, do not pose a problem for the environment. Hoechst claims to be the world leader in large-scale production of such materials.

Behind Hoechst's recognition of French sensitivities is a careful strategy of building up local research, investment and production with an eye to export markets, as well as the local French market.

pharmaceutical plants in France. SFH regards itself as deeply entrenched in local tradition and clearly aims to keep things that way. At its Cuisse Lamotte complex near Paris, whose origins go back 80 years, a new paraffin sulphate plant was opened this month at a ceremony where French verve was well to the fore.

The West German flag was flying at the factory gate (alongside the French tricolor), but it was a tape in French colours which a French industry official ceremoniously cut and which M Monod distributed flamboyantly to some of the hundreds of French guests.

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Behind Hoechst's recognition of French sensitivities is a careful strategy of building up local research, investment and production with an eye to export markets, as well as the local French market.

About 40 per cent of SFH's sales revenue comes from its local production; and in turn, 40 per cent of the locally produced materials are exported, mostly within Europe but also to the U.S. French-speaking Africa, the Middle East and Asia.

SFH has embarked on a plan to invest FF950m between 1984 and 1988, much of it on new and modernised plant. This

#### Focus kept on local research

is a substantial increase above investment in the previous three years, which were marked by restructuring.

With an eye to French support, it has focused on local research, including biotechnology, as one of the group's main priorities. Just under a tenth of SFH's employees are engaged in research.

In export marketing it is setting its sights increasingly on Japan, which takes only 2 per cent of its exports. If the effort succeeds, it will not only go down well at Hoechst headquarters near Frankfurt, but also among those in France who appreciate *savoir faire*.



### AUTOPISTA CONCESIONARIA ASTUR-LEONESA, S.A.

US\$175,000,000

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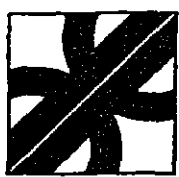
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May, 1985



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US\$70,000,000

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May, 1985



## MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

## Wages and jobs

## Europe treads an uneasy middle way

Brian Groom reports on governments' attempts to strike a balance between flexibility and orderly labour markets



**POOR OLD EUROPE.** With unemployment 11 per cent and rising, against 7.3 per cent in the U.S. and 2.5 per cent in Japan, its allegedly ossified markets are increasingly singled out as a prime obstacle to greater competitiveness.

Have things really got that bad? The closer one looks, the harder it is to draw any simple conclusions, certainly not to justify dismantling too much of Europe's labour and social systems. But clearly all is not well.

Most governments across Europe have taken at least some steps to reduce labour costs, employment protection, social security benefits or (in Britain's case) union power. Meanwhile, companies are putting flexible working time, changing skills, employee involvement, performance-related pay, quality, part-time and contract-based work on agendas across the continent.

Unions protest that the "flexibility" cult is a euphemism for wage cuts and inequality, but even many defenders of Europe's unionised, welfare society admit part of the argument even while groping for an alternative.

As one French state planning official puts it: "We must have a more flexible society and firms. We must take risks. But we have to find a new way between the individualist and collective positions. We are not able to become Californians or Japanese. It is not in our culture."

Britain's Mrs Thatcher has waved the flexibility flag with regulation of union activity, reductions in unemployment pay, large tax cuts for top earners, relaxation of unfair dismissal laws, lowering of national insurance contributions for low-paid workers, proposed "portable pensions," and moves to scrap or restrict minimum wage-fixing institutions.

Other, more consensus-

mind governments are more cautious about dismantling labour and social traditions which served countries like West Germany, France, Belgium and the Netherlands so well in the 1950s and 1960s.

The UK is alone in singling out union power as the main market distortion. As it is, despite piecemeal labour market measures, Europe is still heavily regulated by comparison with the U.S. where, for example, there are scarcely any legal constraints on dismissal—though the American labour market is not as free of rigidities as some of its supporters claim.

West Germany is temporarily extending the use of short-term employment contracts, and a small degree of decentralisation in bargaining has followed last year's metalworkers' dispute, differing working hours emerged between sectors, and some freedom was won by engineering employers to negotiate varying hours around 38½ a week. But the German labour market remains an ordered one, with statutory works councils, multi-employer bargaining, and 90 per cent of workers covered by union agreements against 25 per cent in America. Payroll taxes and benefits add 78 per cent to employment costs, against 28 per cent in the U.S.

The Dutch Government has cut public sector wage growth, trimmed social security benefits, and proposes to speed up dismissal procedures. Wage growth has slowed, youth pay has been trimmed, and bargaining has become more centralised. But the OECD's last report on the Netherlands specifically called for wider pay differentials and more flexible working time.

Belgium has curbed wages, ended dismissal procedures, extended short-term contracts for young workers, permitted variations in working time, and weakened the works council system in small companies.

In France, unions threw out a draft agreement to lengthen short-term contracts and allow more temporary workers, speed up redundancies, and give growing companies more time before they have to set up employee representative bodies. The agreement would also have



allowed hours worked to be counted by the year rather than the week, in return for negotiations on shorter hours and new technology. Further talks between unions and employers on redundancies and retraining have collapsed.

In Italy, in theory at least Europe's most over-regulated country, employers are threatening to stop paying index-linked wage rises next February in a bargaining tactic to reduce the level of indexation. The Government proposes to introduce part-time work in the public sector, and introduce an element of employer choice in the compulsory state-run recruitment service.

To the free-market Americans, all this is confirmation that narrow pay differentials and generous unemployment benefits make people reluctant to move house or change job. They argue that high minimum wages thwart the hiring of young recruits, that inflexible wage bills are swelled by high payroll taxes, fringe benefits and generous holidays, and that recruitment is discouraged by laws which make it hard and costly to fire people. The Patronat, the French employers' federation, says companies have even gone bankrupt awaiting government approval for redundancies.

Cuts in unemployment pay in the Netherlands, France, Denmark and Germany still leave

many European workers on 60 to 70 per cent of their former pay for a year, compared with 45 per cent or less for shorter periods in the U.S.

The American comparison is important because the freer labour market there is often cited as one factor behind the creation of more than 7m new jobs since the depth of recession in November 1982, and 17m between 1970 and 1983. Over the same 13 years, by contrast, EEC countries lost more than 1m.

Yet the comparison may not be as simple as it looks. U.S. unemployment remains at a level which would have been considered recessionary a decade ago. Only recently did it dip below the European level. It was higher every year from 1960 to 1982, largely because the U.S. had to absorb faster labour force growth.

There is also a debate about the quality of the often lower-paid service jobs which have continued to grow while U.S. manufacturing remains depressed. "Half the country is doing the laundry of the other half. That's how we are creating jobs. You cook your hamburger today, I cook your hamburger tomorrow," says Murray Seeger, director of information at the AFL-CIO, the union federation.

This is more than just special pleading for the smokestacks; there is a disturbing underside to the Reagan miracle. Food queues and soup kitchens have

sprung up in once-prosperous working-class suburbs of cities like Cleveland and Chicago.

The U.S. labour market has more rigidities than is commonly imagined, notably inflexible work rules and "seniority"—the highest-paid jobs going to the longest-serving workers—in the blue-collar sector.

Of course the U.S. system is in other ways freer, but that has always been so. "People were mobile in the Great Depression. It doesn't necessarily create jobs," says Seeger.

At best, labour flexibility can have been only one factor among many in the past decade's strong U.S. recovery. Bigger ones were the consumer's willingness to cut savings in order to finance consumption after 1974-75, and the indifference which consumers and investors—encouraged by tax cuts and the tax system itself—showed to high real interest rates in 1983-84.

At least some of the recent employment growth must be attributed to the demand stimulus created by tax cuts, defence spending and soaring budget deficits, along with the relaxation of monetary policy in late 1982 and early 1983.

Japan provides a different model. Though the extent of lifetime employment in Japan and firing in the U.S. are often exaggerated, the average Japanese holds a job for 23 years compared with 17 in

Europe and 14 in the U.S. Many larger European companies are attracted by the Japanese example: flexibility of working practices can go hand in hand with job security.

"If you want to build trust, hiring and firing people creates instability," says Berth Jonsson, vice-president for organisational development at Volvo of Sweden. "Some U.S. companies are attracted too. Fred Foulkes, director of the Human Resources Policy Institute at Boston University, named People Express, General Foods, Xerox, American Airlines and Control Data as among companies joining 30 existing big names which operate no-lay-offs policies."

But European caution should not mean complacency. Europe's employment record has become increasingly unrelated to changes in economic activity since 1973, implying sclerosis somewhere in the system.

Labour cost relative to the rate of return on capital rose by 4 per cent a year in the last decade, hastening the displacement of workers by machines.

In the two recent recessions real wages rose in many European countries, sometimes faster than productivity, and fell in the U.S. With some justification, wage moderation is therefore central to the new model towards which Europe is hesitantly groping.

Nominal and real wages growth has slowed since 1982

but as yet there has been little impact on unemployment. And many of the suggested routes to greater wage flexibility are problematic.

Decentralisation and tailoring of pay rates to local markets and company conditions appears attractive, but the evidence of its effects is mixed. In most American states, there seems little correlation between wages (both levels and rates of change) and unemployment.

Such measures do not necessarily encourage wage moderation. Relatively fragmented bargaining in Britain's private sector has not prevented uncomfortably high real wage growth, while the Government eschews central mechanisms to control it.

European employers often look wistfully at what they consider to be the U.S. wage flexibility, including recent developments like union "give-back" pay concessions and lower scales for new recruits. But the real wage reductions in the two recessions could hardly be ascribed to flexibility—they happened not because the nation responded by suddenly taking pay cuts, but because nominal wages carried on growing at the same, steady rate even when prices leapt temporarily above them.

On hiring and firing, European measures on temporary and part-time work are hastening the creation of a dual labour market, which unions fear will create social divisions between "core" workers and insecure, low-paid peripheral ones.

For now, however, the division between those with and without jobs is greater. Wage differentials could probably be widened a bit even in an egalitarian country like the Netherlands without social dislocation, though how much difference a small change would make to incentives is debatable.

There is certainly more to European uncompetitiveness than just rigidities in the labour market. Other areas are at least as important—principally the climate for innovation and the overall level of demand.

The most crucial labour measure to be taken is to improve the level and quality of training. Skill shortages are occurring not just in Britain but in countries like the Netherlands, where it can be hard to get a good fitter let alone an electronics engineer.

The overall picture is of a Europe prepared to see widening but not cataclysmic changes. Perhaps a little flexibility at the margins will be all that's needed," said one OECD official. Many will cross their fingers and hope that is so.

Previous articles appeared on June 17, 19, 21, 24, 26, 28 and July 1. The next will be published on Friday.

## BUSINESS PROBLEMS

BY OUR LEGAL STAFF

## Subsistence

I employ a consultant to help me in the office for a number of weeks each year. He lives 40 miles away and I pay him a fee and modest subsistence expenses. I also pay his hotel bill to save him travelling.

Now the Inland Revenue proposes to tax him on the subsistence allowance. This seems unfair, as the cost of subsistence in this large city is much more than would be the cost of his meals at home. The Inland Revenue quotes section 30 of the Income and Corporation Tax Act 1970. Is this right?

The inspector is referring to section 120 of the Income and Corporation Tax Act 1970 (not section 30). On the bare facts outlined, the answer is yes.

## Changing tack

I have been running a business for several years in partnership, paying tax on a previous year basis. We are now considering disposing of the goodwill and assets of the business and re-investing in part-residential, part-business property with a view to holiday letting on a fairly substantial scale.

1—If we dispose of the business we would automatically change to an actual year basis for income tax purposes, even though there is no change in the partnership. Only a change in the type of business being conducted? If so, how soon after the disposal could this become effective? Is there any way to avoid this?

2—Would the above reinvestment satisfy the tax office with regard to the rolling over of capital gains tax? Would we in this instance be able to split the value of the property to avoid any potential capital gains tax on the residential part of the property?

1—Yes, for the year of cessation and for the preceding two years, if that is to your disadvantage.

2—Not necessarily; you should seriously consider incurring the expense of professional guidance through the tax maze, even though you have managed without an accountant up till now.

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.

## TECHNOLOGY

EDITED BY ALAN CANE

## Tune into cheaper rural telephones

Geoffrey Charlish on a radio that can cut costs by transmitting four conversations at once

A DIGITAL radio system that enables four conversations to take place at the same time on a single ultra-high frequency (UHF) radio channel has been developed by International Mobile Machines of Philadelphia.

Although the system has important implications for cellular and other mobile radio services, Mr William Hillsman, president and chief executive of IMM, believes the first applications will be in rural, fixed telephone networks. He claims his system, called Ultraphone, is cheaper to install than the long telephone cables normally needed in such areas between exchange and subscriber.

In London recently, Mr Hillsman revealed he had been trying to interest both Plessey and British Telecom in the system. In the U.S. testing is in progress with four local telephone companies.

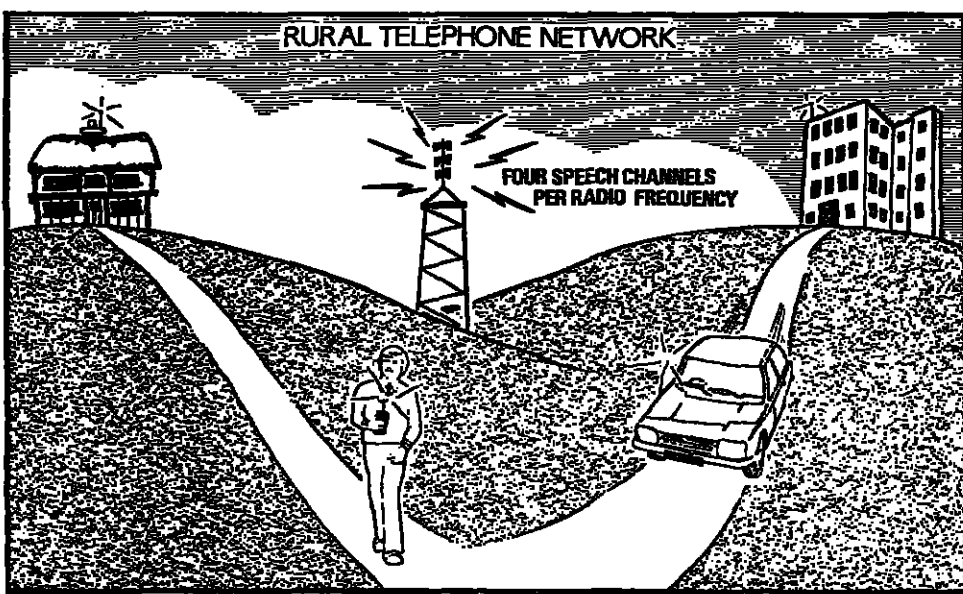
The market in Europe however, where most telephones are installed in well populated areas, is expected to be fairly small. Mr Hillsman thinks his biggest opportunities will arise

in underdeveloped countries where a greater proportion of telephones will be connected to outlying districts.

Had the world's cellular radio operators not committed themselves to conventional analogue radio, this new digital system would no doubt interest them as well, because reports are now emerging from the U.S. of channel shortages—the very problem that cellular radio was supposed to remove.

Cellular radio in a city uses a number of geographical cells, each with its own low power transmitter instead of one big one in the centre. This allows the frequencies allocated to one cell to be used in another cell elsewhere in the city without mutual interference, increasing the number of available channels. Cars are allocated new frequencies by computer as they move from one cell to another.

As the number of subscribers increases, the idea is to split the cells into smaller areas, but there are signs that the competitors are not coping too well. IMM's four channels on one frequency would be valuable



Different messages can be transmitted to four separate points using a single radio frequency

to cellular operators, but they would have to change to digital transmission from analogue. That change is tentatively planned in Europe, but not for at least a decade.

In developing Ultraphone the U.S. company has brought together two technologies: time division multiplexing (TDM) and digital compression.

In TDM, each audio signal is turned into a train of pulses, rather like Morse code. Each of the four trains of pulses is slightly displaced in time from the others, allowing them to interleave and exist on the same wire (or the same radio channel) at the same time.

A time-sensitive circuit at the other end separates the four trains and converts them back into speech. TDM has the advantage that noise and distortion are greatly reduced.

In addition, with care and skill the number of pulses needed per second can be reduced without affecting speech quality. IMM has used its own version of digital compression to cram four channels of speech on one radio channel. With further development, Mr Hillsman believes it will be possible to carry eight or more channels.

Until recently, Mr Hillsman was a lieutenant general in the U.S. Army. The army has an obvious interest in pulse transmission systems because they can be made secure simply by re-arranging the time position of the pulses and restoring them, according to a key, at

the receiving end. The process is called encryption. Mr Hillsman has been in charge of both the National Communications and the Defense Communications Systems.

Ultraphone in its final form will be able to provide "scrambling" of the circuits can be realised on a single chip, says Mr Hillsman.

In a rural area, the system can meet all local communications needs, fixed and mobile. Any of the four speech channels on any of the allocated UHF frequencies can be assigned to any user.

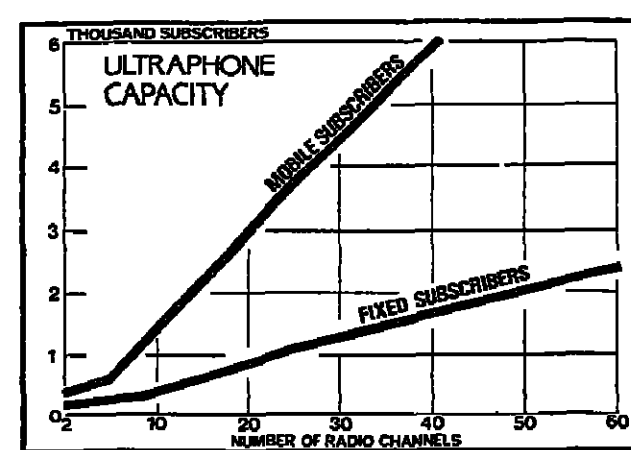
The channels are assigned to users by a central computer which monitors their use and makes sure they are kept filled.

In conventional radio systems, each user has his own frequency, which often is unused for long periods of time. The new approach, called "trunking" is on trial in the London area in a separate, unrelated British experiment.

The base station for Ultraphone contains transmitter, switching computer, and a means of connection with the conventional telephone network, locally or remotely.

The subscriber equipment carries out digital signal processing, modulation and radio transmission and is connected to a normal handset which is used like a normal telephone.

With an allocation of say, 40 UHF channels, IMM says that between 2,000 and 6,000 subscribers can be served.



## Michelin wheels out the plastic tyre valve

NEW ENGINEERING materials such as plastics and ceramics which are as strong and long lasting as the metals they replace are making a significant contribution to cutting manufacturing costs. One, however, is at the rim of its own particular revolution rather than at the hub.

In France, Etalissements Vapé, a valve manufacturer based in Oyonnax, has been working with the tyre manufacturer Michelin to produce a valve consisting only of three snap-fit parts plus a metal spring. A traditional metal valve has 11 separate components.

Neither Vapé nor Michelin are prepared to disclose manufacturing costs but the industry estimates that the new process may have cut the cost of producing a valve by up to 30 per cent.

The valve is moulded in a new engineering material made by Du Pont called Delrin, a macromolecular resin which is strong, rigid, and resists fatigue and corrosion.

According to Du Pont it is easy to mould and able to resist wide variations in temperature, humidity, oil, grease and dirt thrown up from the road.

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approach of Burroughs, where every workstation or personal computer is powerful enough to act as the master processor and no single workstation is dominant.

The new processor is part of IBM's 4700 financial family: a basic configuration consists of the computer with 512,000 bytes of main memory and a 5.25 inch diskette drive with 1.2m bytes of storage.

The main memory can be increased in 512,000 byte or 1 megabyte increments to a maximum of four megabytes. A 1.2 megabyte diskette drive can be added.

## Siemens' DM100m for academics

SIEMENS, the West German electrical plant, is to spend DM 100m over the next five years on sponsoring university research on a range of projects including computer-aided design techniques for semiconductor and basic research in physics and chemistry.

The new valve is being used in bicycles and Michelin is introducing a larger version on tubetype tyres for cars.

This version, called the VMP 413, has special advantages for bigger tyres run at higher speeds. Traditional rubber valves can change shape at speeds over 110 km an hour (70 mph), allowing air to escape between the valve and the rim on rubeless tyre.

Because it is lighter and more rigid the new plastics valve is not deformed by centrifugal force. Also, because it becomes part of the wheel rim when snapped into the aperture there is no air loss.

The car tyre valve is designed to work at pressures of up to eight bar (112 lb/sq in) much higher than the limit for rubber valves.

The manufacturers claim they have simplified inflation and deflation of the tyre through a novel system for locking the valve core in the open position.

Which should be good news for ham-fisted cyclists who invariably deflate their tyres while fiddling with conventional valve cores.

Alan Cane

## New IBM bank computer

IBM, a major supplier of banking automation equipment, has reinforced its commitment to the "branch processor" concept—the use of a small computer powerful enough to deal with all the requirements of an average-sized branch—with the announcement of a new model, the 4702.

IBM says the new computer can handle a range of financial processing tasks such as teller transactions, loan processing and automated teller functions.

This approach to banking automation—shared by companies like Philips—is in contrast to the "workstation"

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## UK COMPANY NEWS

## GEC below expectations at £725m

THE LATEST in the growing list of disappointments from the electrical sector came yesterday with the announcement of the General Electric Company's results for the 1984-85 year.

The pre-tax result for the period ending March 31 1985 came to £725m, an increase of £54m over the comparable figure, but this was well short of even the most pessimistic analyst's forecasts, which ranged from £740m to £770m.

The markets, which have marked down the most prestigious of electrical/electronic shares in the past few weeks, reacted to the announcement by knocking 4p off GEC's shares to 162½—just short of the 1985 low—but later rebounded. The shares closed at 166p.

As expected, the company received a considerable boost from non-trading activities in the form of interest receivable on its substantial cash mountain. This added £170m to the profit and loss account, against £141m.

Three of the group's operating divisions showed a downturn—telecommunications and business systems, automation and control, and electrical equipment—but the shortfall was more than made up by the electronic systems and components sector which showed an increase of £38m to £235m.

All other sectors showed slight rises, with power generation ahead by £3m at £55m. It had been expected that this division would show a benefit from a sizeable number of equipment deliveries. Medical equipment made £5m more at £22m, and consumer products were up from £23m to £27m. Distribution and trading was unchanged at £14m.

Group turnover was up from £5,030m to £5,540m, with by far the largest chunk still coming from the UK at £2,720m against £2,420m. The Americas topped the £1bn turnover mark for the first time with £1,140m against £967m. The rest of Europe accounted for £10m more at £509m, and Asian sales moved ahead strongly from £564m to £707m. Sales in Africa and Australia slipped to £237m (£306m) and £225m (£247m) respectively.

Exports from the UK rose from £1,210m to £1,230m, with export orders received standing at £1,100m against £857m.

Included in the figure for investment income is a revaluation adjustment of credit of £14m (£14m) on the group's holding of foreign currencies.

A final dividend of 2.65p (2.3p) lifts the total from 3.45p to 4p, which will take £107m (£95m). The company states its earnings per share at 14.9p against 14.2p after a tax charge of £289m, up from £288m before extraordinary credits amounting to £8m (£21m).

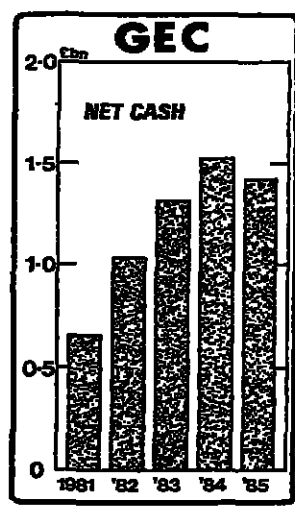
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## DIVISIONAL PERFORMANCE ANALYSIS

	Pre-tax profit 1985	1984	Turnover 1985	1984
Electronic systems	225	197	1,841	1,578
Telecommunications	81	93	746	735
Automation	48	52	463	435
Medical	29	24	472	435
Power generation	55	52	655	623
Electrical	42	49	815	750
Consumer	27	23	300	279
Distribution	14	14	227	197



Lord Weinstock, managing director



## English China unwanted shares sold at premium

By Stefan Wagstyl

City institutions, which underwrote the £89m rights issue from English China Clays, have been spared at the last minute from having to take up unwanted shares.

Shareholders accepted just 52 per cent of the shares on offer, after the stock market fell heavily in the wake of the announcement of the issue earlier this month.

But ECC's financial adviser J. Henry Schroder Wagg and De Zoete and Bevan, its stockbroker, yesterday sold all the unwanted shares at 220.375p, a slight premium to the 220p issue price.

Meanwhile, the directors of Emess Lighting and their underwriters saw the company's rights issue 96.1 per cent subscribed. And the offer for sale in insurance broker Bradstock Group was subscribed one to two times. Merchant bank Kleinwort Benson is expected to announce the basis of allotment today.

## Lincroft lifted by investments

BOOSTED by realised gains on investments, Lincroft Kilgour Group improved taxable profits by 42 per cent in the six months to March 31 1985.

Trading profits moved ahead from £328,900 to £393,300, but more than half the £192,400, or £102,400, came from net realised gains on investments, less the amount written off. This made £114,000 more above the line at £169,100.

There was also an increase in investment income, up from £14,900 to £89,000.

Mr Anthony Holland, the chairman of the group, which in addition to its investment holding activities has interests in cloth merchandising and bespoke tailoring, does not suggest that an investment performance of this order can be maintained in the second six months.

"Indeed, we expect conditions in the UK market to become more difficult and we have started to adopt a more defensive stance by increasing liquidity and looking for more opportunities overseas," he says.

The rise in trading profit occurred despite the absence of a contribution from the now defunct uniform manufacturing division, which last time turned in £75,500 on sales of £344,200.

Continuing textile activities increased trading profit by 50 per cent, with the bulk coming from cloth merchandising at £301,100 against £181,600 on sales of £1,088m (£1,222m). Bespoke tailoring added £40,400 (£28,800) on sales of £393,700 (£344,200).

Total group sales were up from £3,920m to £4,470m.

In the chairman's year-end statement, he emphasised the group's efforts to build up a regular franchise income. This revenue is shown in the trading breakdown as "other operating income," and came to £88,600 against £82,600.

Mr Holland believes that these receipts will continue to grow steadily. The interim dividend is raised by 0.5p to 2p following a 5.5p total last time. After a tax charge of £277,100 (£181,700), earnings per share came out at 5.1p (6p).

## GA boosts bonus rates

General Accident Life Assurance, a member of the General Accident Insurance Group, has announced substantial increases to its terminal bonus rates applicable to claims arising from the beginning of this month.

For life contracts issued since 1982, the rate is lifted from 55 per cent to 65 per cent of attaching and interim bonuses, while for pension contracts issued since 1982 the rate rises from 40 per cent to 45 per cent of attaching bonuses.

Terminal bonus rates on with-profit contracts issued before 1982 are also being increased significantly.

Mr Norman Graham, general manager and actuary of General Accident Life, said that these increases reflected the company's continuing excellent investment performance and the favourable tax changes in the current Finance Bill. It would also enable the already high returns on GA's life and pensions contracts.

## M. Black returns to market as hotel group

By Lucy Kellaway

MARTIN BLACK, the shares of which were suspended a year ago when the company pulled out of wire-making, is returning via the USM, as a hotel group.

The company is to acquire Dean Park Hotels, which owns and operates three hotels in Glasgow, Watford and Stevenage, after which it will change its name to Dean Park Hotels Group. The deal, which is subject to shareholders' approval, will be funded by the issue of 4.5m shares.

Hambros is bringing the company to the USM with a placing of 450,000 existing shares at 51p each, well above the current suspension price of 25p. Hambros has also agreed, for a period of three days after dealing starts, to buy out existing shareholders at an agreed price of 51p.

Under the terms of the purchase, Martin Black will issue 4.5m new shares to the vendors on completion, and a further 1.7m related to performance. The three hotels have recently been valued at £7.95m, and the company has a net asset value of £3.8m. The Dean Park Group will have net assets per share on completion of 65p.

Dean Park has produced pre-tax profits in the region of £350,000 in each of the past five years, with the exception of 1985, when profits fell to £17,000 following a £424,000 interest charge on borrowings used to finance the hotels acquisition.

The new group will have almost no borrowings. While the directors have made no profit forecast for this year, they intend to vend the additional shares begins on the achievement of profits in the present year above £50,000.

Mr Ian Morrow, chairman of Dean Park, will become chairman of the group, and the managing director, Mr J. Kennedy, will become a non-executive deputy chairman. Mr M. Gold and Mr D. Newstead, present executive directors of Dean Park, will be joining the board. Dealings start on August 1.

## comment

Prospects for Martin Black's shareholders are today far brighter than they were when the shares were suspended. Having sat on an investment stuck at 22p and with no yield for more than a year, they may feel inclined to accept Hambros's 51p cash price gratefully and get out altogether. However, the deal does have some tempting elements. The new owners of Dean Park are in the process of vigorously shaking up a down-at-the-heel cluster of hotels, and after completely redecorating them profits should more than double following a tripling of room prices. However, shareholders are being asked to take rather a lot on trust: the new owners of the group come without much direct experience in the running of hotels, although the 25 per cent discount to asset value seems to take some account of this. If the company makes profits of £325,000 in the present year, the shares are on a p/e of 17 which may not leave too much room for immediate capital gain.

## CML up 48% despite second half sales slip

CML Microsystems, the Essex based manufacturer of integrated circuits, lifted pre-tax profits by 48 per cent in the 1984-85 year, despite a second half in which sales were constrained by the recession on the semi-conductor market.

Mr G. W. Gurry, the chairman of this USM concern, says that an upward trend was re-established in the closing months. Sales for the year to March 31 rose from £4.23m to £5.78m, and produced pre-tax profits of £1.35m against £912,204.

He adds that the group is well placed for further growth, and that the expansion of activities into suitable areas is under consideration. With earnings per share up from 6.8p to 9.9p, the directors are to recommend a maiden dividend of 1.4p. This will cost £120,400, after a tax charge of £469,815 (£338,850) and minority interests of £28,648 (£13,573).

Mr Gurry says that investment plans for the year were on course with some £7m spent on expanding R&D and production facilities in the UK and U.S. Cash reserves showed an increase over the previous year and net borrowings were nil.

LADBROKE INDEX  
944-848 (-10)  
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July 4 closing at 6 pm

## Vosper incurs £1m loss and warns on current year

Vosper, the Hampshire-based shipbuilder, shiprepairer and engineer, plunged deeply into the red over the second six months and finished the 1983-84 year £1.02m in loss at the pre-tax level.

And, with losses of 34.6p per share the final dividend, like the interim, is also being passed—last year shareholders received a total payment of 8.5p from pre-tax profits of £2.05m.

In the current year the group is still suffering from a continuing recession in shipbuilding and related industries and on the basis of unaudited management accounts a loss in the order of £2.5m is expected for the opening six months to end-April.

The directors say Vosper's working capital position remains under pressure due to the continuing low level of orders. They add, however, that a number of substantial orders are under negotiation and that they are confident that some will be successfully concluded in the near future.

Vosper's bankers are continuing to maintain their support, but shareholders are told that further orders are essential to secure the group's financial position. Sir David Brown, president of Vosper and David Brown Holdings, the ultimate holding company of Vosper, have agreed as a temporary measure to provide additional finance in anticipation of the orders under negotiation being secured before the European Court for Human Rights, is not expected before the end of 1985.

The group's claim for additional compensation of £2.3m of group reserves which arose from consolidation of the attributable profits of Yarrow was sold at a profit of £1.8m over the cost value of £1.2m. The directors do not believe the profit will be subject to tax as a result of reliefs available. They point out, however, that group accounting treatment of the disposal required the elimination of £2.3m of group reserves which arose from consolidation of the attributable profits of Yarrow.

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Turnover for the year, to October 31 1984, dived from £28.13m to £17.05m. The loss was brought about by a disappointing level of order intake throughout the year.

Profits for the first six months were £30,000 ahead at £782,000 but in the second half the group ran up losses of £1.5m. Tax for the year accounted for £480,000 (£446,000), and extraordinary items for £2,050m.

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## DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div.	Total for year	Total last year
CML	1.4	Aug 10	—	1.4	—
GEC	2.65	Oct 1	2.3	4	3.45
Lincroft Kilgour	2	Sept 5	4.5	6.5	5.5
Mountleigh	4.5	—	—	—	—
Pope Group	1.5	Oct 1	—	1.5	—
Vosper	nil	—	3.28	3.28	5.28
Alfred Walker	0.75	Oct 30	0.75	1.5	—
Rex William Lelaure	0.42	July 30	—	0.42	—

Dividends shown pence per share net except where otherwise stated. \* Equivalent after allowing for scrip issues. † On capital increased by rights and/or acquisition issues. ‡ US\$ stock.

## comment

Vosper's result may have been grim but it was not unexpected. The group warned as long ago as last December when it paid off £2.2m in borrowings from the National Research Development Corporation that it had suffered a trading loss for the year of about £1m. Prospects do not appear to have brightened much since: shipbuilding is still in the doldrums and the group is heading for heavy losses in the first half of this year. Vosper reports a healthy level of inquiries but its full-year performance will depend on the unpredictable extent to which they turn into orders in the second half. The most surprising thing about yesterday's result was that anyone was surprised by it: the share price shed 35p to 190p after the announcement. A goodly chunk of the earlier price appears to have been reflecting the possibility of success at Strasbourg rather than Vosper's underlying trading position, and some investors have been brought back to earth with a bump.

## Benjamin Priest recovering

AFTER TWO years of losses and a major capital reconstruction Benjamin Priest Group, the West Midlands engineer, ended the year to March 29, 1985 showing a small profit.

On turnover down by 23 per cent from £40.8m to £31.57m, pre-tax profit was £361,000, compared with loss of £1.35m for the previous year. The board does not feel, however, that the performance justifies the resumption of a dividend payment.

The directors say that the year was one of significant change and reconstruction. Trading conditions were mixed, with many customers in the automotive industry suffering industrial relations problems. In spite of this, encouraging progress has been made.

The refinancing in October 1984 raised £3.23m net and four loss-making subsidiaries had been closed or sold. The results

for the period exclude sales of £3.51m for the companies and pre-tax losses of £692,000.

A provision of £5.23m was made in 1983-84 to cover closure costs of Benjamin Priest and Sons and the loss on investment for the other three. This was adequate.

During the period bank borrowings fell to £3.09m from £3m with gearing down sharply to 146.7 per cent to 40 per cent.

The pre-tax figure was struck after interest changes of £662,000, a fall of 33 per cent from the previous year's £998,000. With tax at 65p (nil), no extraordinary items, compared with £5.23m last time, and an accrual for preference dividends of £132,000 (nil), retained profit was £172,000 against a loss for 1983-84 of £6.55m.

Earnings per share came out at 1.02p (7.31p loss), or 0.72p on a fully converted basis.

The directors say that although satisfactory progress was made since the financial reconstruction, some of the benefits of the rationalisation programme are still to be realised.

The present year has started reasonably but trading conditions are becoming more competitive in certain areas.

Opportunities for the development of the group, possibly by acquisition, are being sought. During the year another former Delta Group director, Mr Ronald Asserson, joined the board as a non-executive director. The chairman, Mr Christopher Walliker, and the chief executive, Mr David Abel Smith, are both former Delta directors.

## Cullens sells off-licences to Whitbread for £0.9m

BY ANDREW ARENDS

Cullens Holdings, the stores group taken over last December after a bid battle by three former Imperial Group executives, yesterday announced that it had sold 16 off-licences, located in the South East, to Whitbread, the brewers, for £900,000 in cash.

Cullens also said that it had sold its Battersea warehouse to Mistone Development, a property company, for around £500,000. The company added that offers had been accepted for another four off-licences, and negotiations are continuing for the sale of the seven remaining outlets.

Mr Peter Matthews, Cullens' chairman, said yesterday that the disposal of the wine and spirit group executives, yes, funds for re-investment in the group's grocery and convenience stores, as well as reducing group borrowings.

According to Mr Matthews, the wine and spirit division was "marginally profitable" last year, on turnover of around £7m. He said that turnover of the slimmed down group, on the basis of last year's figures, would be around £20m, prior to any growth.

## Lucas raising £18m for U.S. purchase

Lucas Industries, the aerospace and vehicle components group, yesterday placed nearly 6.1m shares on the stock market to raise £18m to finance the purchase of Duralith, a New Jersey-based maker of graphic control panel assemblies. Czarnow, the stockbroker, placed the £1 shares at 295p each with institutional investors. The new shares represent 6.7 per cent of Lucas's issued share capital. Lucas announced on April 26 that it was launching a £22.7m cash bid for Duralith in what was the British company's first acquisition in three years, following a long period of restructuring.

This advertisement is published by The Burton Group plc, whose directors (including those who have delegated detailed supervision of this advertisement) have taken all reasonable care to ensure that the facts stated and opinions expressed herein are fair and accurate. Each of the directors accepts responsibility accordingly.

## Who are Debenhams trying to kid?

Debenhams claim their profits for the first 16 weeks of the current financial year were "significantly ahead" of last year.

Who's kidding whom? The profit increase of £3.9m has been achieved against a background of losses on the furniture and electricals business in the same period last year of £2.8m.

More significant is the fact that total sales increased in the first 16 weeks by only 6%—barely enough to cover inflation despite the assistance of the "new stores," "major extensions" and "extensive remodelling" they keep boasting about.

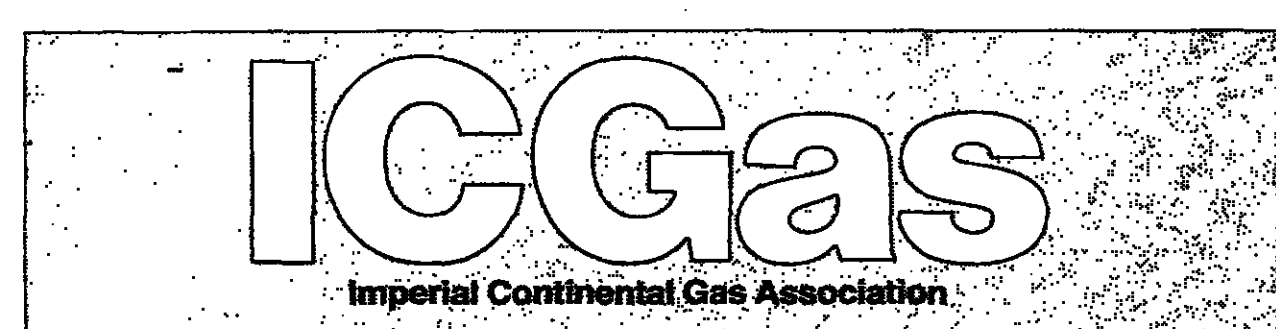
No matter what methods are used to increase this year's profit, sustained profit growth can only come from strong sales growth.

Over the last 5 years, Burton sales increased by 95% against 34% for Debenhams.

Debenhams can only achieve real growth under Burton management. The message is clear. Back Burton.

Debenhams promises—Burton delivers.

The Burton Group habitat/mothercare



## "A year of progress in all areas"

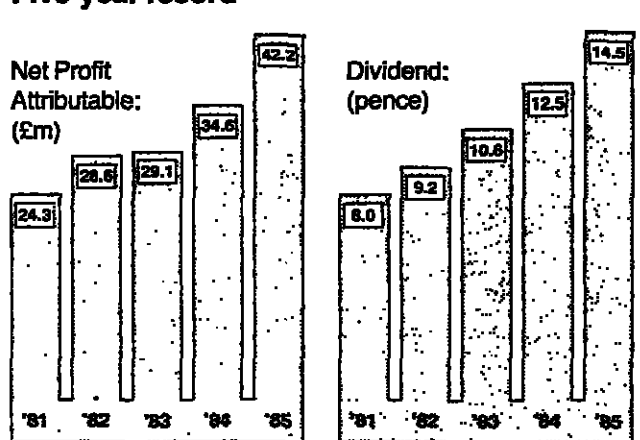
F. E. Zollinger, Chairman

- Strong profits growth in oil operations ■ Another record result from Calor
- CompAir restored to profitability ■ Continued strength in Belgian earnings
- Dividend increased by 16%

## Results in Brief

	Years ended 31st March 1985	1984
Profit before Tax and Minorities	£80.0m	£50.0m
Net Profit Attributable	£42.2m	£34.6m
Earnings per Stock Unit	32.4p	26.7p
Dividend per Stock Unit	14.5p	12.5p

## Five-year record



IC Gas is an energy-related business with four main areas of activity.

The Oil Operations Group is active in exploration and production in the North Sea and also operates onshore in North America. Calor distributes and sells Calor gas and appliances to householders and industrial customers throughout the British Isles. CompAir supplies factories, mines and construction sites throughout the world with air compressors and allied control and application equipment. Belgian Operations relate mainly to interests in the private sector electricity and gas industries and to a significant investment in the Petrofina oil company.

Copies of the 1985 Annual Report are available now from Imperial Continental Gas Association, 14 Moorfields Highway, London EC2Y 5BS.

## UK COMPANY NEWS

A. Walker  
to double  
its net  
asset base

Alfred Walker, the property group, is seeking a firmer foundation by the acquisition of a Birmingham property which will double its assets. The company announced yesterday that it had entered into a conditional agreement to acquire the Tysley Industrial Estate for £865,000.

The company balance sheet at the end of April 1985 showed assets of £735,000.

Mr John Donachie, the chairman, said yesterday that the property market was volatile and the company had been looking to acquire interesting properties to provide a more stable base.

It is intended to finance the purchase principally by a rights issue of 81 per cent convertible preference shares of £1 at par on the basis of one for every two ordinary shares held. The issue is being underwritten by Brown Shipley and Co.

Most of the Walker shareholders are institutions with the Morgan Grenfell Special Exempt Fund having a near 20 per cent holding. Mr Donachie said that the issue had been tailored for the institutions and was confident that it would be taken up.

If the total issue is taken up the company's capital base will be increased six times. The closing date for acceptances is August 16.

An extraordinary general meeting has been called for July 25 to approve the changes. The company is also seeking to increase its authorised ordinary share capital from £200,000 to £375,000.

For the year to April 30 1985, pre-tax profit was £250,000, compared to £4,000 for the previous year, on turnover down by 16 per cent to £934,000 (£1.1m).

Dividend for the year is maintained at 0.75p net. The chairman says that in future the group will no longer undertake small renovation projects but concentrate on substantial development schemes.

"This company is now actively involved in the promotion of projects in the field of retail store developments and town centre schemes. We do not wish to tie up our small capital base in anything other than an attempt to secure Mr Walker's returns from larger developments," Mr Donachie says.

Pepe beats forecast and  
ahead in current year

THE Pepe Group has beaten its prospectus forecast by over £100,000 and has started the current year with sales ahead of 1984 levels. Its products are being well received in the U.S. and demand is growing.

The group, a designer, importer and wholesaler of casual wear and jeans, saw its profits before tax rise to £2.63m over the 12 months to end-March 1985, despite the weakness of sterling earlier this year.

This compares with the previous year's £1.91m and the directors' forecast of not less than £2.5m made last February at the time of Pepe's entry to the USM.

Shareholders are to receive the promised final dividend of 1.5p net per 10p share—in future years the group intends to pay both interim and annual dividends.

For the 1984-85 year group turnover surged from £8.98m to £19.91m.

Mr Roger Rowland, the chairman, says the business grew substantially compared with the previous year and that the first contribution was received from

the group's expansion abroad. He explains, however, that the major reasons for growth were a wider customer base in the UK and the bigger range of merchandise offered.

Tax for the year accounted for £1.18m, compared with £418,000, and minorities for £36,000, against £9,000.

Available earnings came through at £1.35m (£490,000) after deducting pre-acquisition profits amounting to £40,000 (£10,000) of subsidiaries acquired for cash.

Dividend payments will absorb £350,000 to leave a retained balance of £1.03m. Earnings per share improved from 2.7p to 7.5p.

The refurbishment of the new headquarters in North London is progressing according to schedule and the group should be installed by the end of the year.

Pepe's debut on the USM in March was such a flop, with the shares going to a 30 per cent discount, that it may take some time before the company can

establish its reputation in the market. These results, a safe margin over the forecast, should start to repair some of the damage, and yesterday the shares climbed 5p to 82p, still well below the 100p issue price. Pepe has achieved all that it said it would, and the current year seems to have started well.

Future growth should come from greater penetration into the U.S. market—the number of customers has grown from 200 to 300 since the flotation—and from the addition of new product ranges, including clothes for children and lines designed especially for women. With only 3 per cent of the £1.1bn market for casual clothes in the UK, there is plenty of scope for expansion here, too.

The risks in the fashion market have been demonstrated twice recently by disappointing figures from Gap and French Connection.

However, Pepe is not showing signs of coming unstuck, and its shares are trading on an overly cautious multiple of 8, given profits of £3.5m and a 40 per cent tax charge.

## comment

Pepe's debut on the USM in March was such a flop, with the shares going to a 30 per cent discount, that it may take some time before the company can

Midway  
advance  
for Rex  
Williams

Rex Williams Leisure, manufacturer and distributor of pool and snooker tables, has reported a rise in pre-tax profits from £88,000 to £73,000 for its first six months on the USM.

In the period to end May 1985, turnover increased by £19,000 to £487,000, although operating profits were down from £76,000 to £67,000.

The directors are paying the 0.42p interim dividend forecast at the time of flotation. They also forecast a final of 4.48p.

The expansion programme into light metered snooker progressed at the same rate as that achieved in the comparable period. At end-May 197 units were sold, 31 more than at the year end in November. During the same period the company's own operated pool and snooker units fell from 955 to 907.

Mr Rex Williams, the chairman, says that in order to improve growth the company has increased its sales activities, but although some success is being seen, the full impact of the efforts will not be realised in the current year.

With the company placing greater emphasis on light metered snooker, a more seasonal game than pool, he says that it is unlikely that the growth which had been anticipated in the second half will materialise.

The pre-tax result was struck after interest received added £6,000 (payable £8,000). Tax took £14,000 (nil).

Pentland sales ahead first half

Mr Stephen Rubin, chairman of Pentland Industries, told shareholders at the annual meeting that trading for the first six months had been at a substantially higher level than last year.

At the EGM, shareholders passed a resolution approving the public offering in the U.S. of shares in its sports shoe distributor, Reebok, and giving the directors a general authority to agree the final terms and implement arrangements.

The offering is expected to begin on July 30 and close on August 6 1985.

## Mountleigh soars 49% to £2.5m

THE Mountleigh Group returned results ahead of directors' expectations for 1984-85 and looks to the current year for further substantial progress.

For the past year, to April 30 1985, total income surged from £8.58m to £29.7m, generating pre-tax profits of £2.53m, compared with a previous £1.7m, an improvement of 49 per cent.

And with earnings emerging 8.8p ahead at 35.4p the dividend for the year is being increased by 1p to 8.5p net by a final of 4.5p.

The directors say this year promises to be both exciting and rewarding and should see the group make further substantial progress.

Along with its preliminary results Mountleigh says it has contracted to acquire for £8.5m, 42-70 Kensington High Street, which comprises a Woolworths store, five retail units, approximately 32,000 sq ft of offices and 45 cars.

The group plans to refurbish the retail and office elements and anticipates that when com-

pleted and fully let the investment value of the property will exceed £14m.

Mountleigh has also purchased 164 acres of industrial land at Dagenham, between the M25 and M11, with a rental income of £250,000 per annum. It has already agreed land sales of some 60 acres, the total proceeds from which will exceed the original purchase price and leave the rental income virtually intact.

The group now proposes, subject to planning, to carry out a composite redevelopment on the balance of the site which, it believes, "will lead to the regeneration of this part of Essex" and create several hundred jobs.

Total income for 1984-85 was made up as to sales £16.26m (£3.39m) and rental income £4.11m (£2.21m)—Mountleigh, based at Putney, West Yorkshire, is engaged in property investment and development.

The Mountleigh Homes (Scotland) division is well established

and will this year build between 150 and 200 units. Sites are areas where the supply of private housing is very limited, and already almost half of this year's build programme is reserved.

This division is expected to make a substantial contribution to group profits. It has made an excellent start to the current year and the directors are confident that the progress achieved during 1984-85 will be continued.

Group interest charges for the year under review rose from £1.2m to £2.54m and tax from £16,000 to £53,000.

At year-end assets per 25p ordinary share totalled 358.93p (£14.51p) or 350.33p (£14.51p) fully diluted for conversion of the loan stock. Shareholders' funds stood at £25m (£22m).

The directors point out that the group's capital base has been considerably strengthened by the raising earlier this year of £7m by way of a 91 per cent convertible loan stock and the arrangement of a new £10m syndicated medium term loan.

## COMPANY NEWS IN BRIEF

**RUGBY PORTLAND Cement** has been accepted by holders of 54.96m of the ordinary shares. Together with the 1.75m shares held before the offer and the 8.48m bought since, Rugby Portland has acquired or received acceptances for 65.2 per cent of the issued ordinary capital and the offer has been declared unconditional.

**EXETER BUILDING and Construction** is in discussion with Bailey Hoedding—a private company trading from Bristol—which is expected to result in the latter joining the EBC group. Bailey's trading would continue normally thereafter and continued employment of existing staff is expected.

**BRICOMIN Investments** has increased its holding in J. N. Nichols (Vimto) to 6.47m ordinary shares (35.06 per cent) following conversion of all the £1.09m 10 per cent unsecured loan stock 1981-80. Bricomin is a subsidiary of British & Commonwealth Shipping.

**MARLBOROUGH Property Holdings**, through its subsidiary Chown Investments, has conditionally agreed to acquire a freehold interest in the Solent Industrial Estate for £2.79m.

This will be met by £285,000 offer for John Carr (Doncaster) which Samuel Montagu will arrange to have placed at 52p each. The property is situated at 12, Hove Road, five miles east of Southampton. It is about 7.9 acres and comprises 25 industrial and warehouse units producing a net income of some £235,000 from mainly 21-year leases expiring between 1986 and 1993. The property has been independently professionally valued at around £2.9m.

**LEWMAR**, a Havant, Hampshire, company making winches, rigging and other equipment for yachts, is being floated on the USM later this month with a market capitalisation of £25m to £30m, by means of an offer for sale by brokers Phillips and Drew.

**CONSOLIDATED GOLD FIELDS** has sold Bell and Sons, comprising the agricultural division of Bath and Portland Group, to Farnos Farming for a total consideration of £7.5m. The sale was in line with Gold Fields previously stated intention to divest itself of this division.

**SECURITY EXPRESS**'s acquisition by Mayne Nickless (UK) is not to be referred to the Monopolies Commission and the Trade Secretary, Mr Norman Tebbit.

**STORMGARD** contested offer for Sellinart has been accepted by 57.2 per cent of the ordinary shares, bringing Stormgard's holding up to 61.8 per cent. The preference has been taken in respect of 51.1 per cent and both offers remain open. The

ordinary, however, still has conditions attached. The alternative cash offer has closed.

**YEARLING BONDS** interest rate this week is 12 per cent, unchanged from last week, and compares with 10 1/8 per cent a year ago. The bonds are issued at par and are redeemable on July 9 1986. A full list of issues will be published in tomorrow's edition.

**DELMAR GROUP** of rubber and plastic processors has lifted sales by 24 per cent to £2.97m and profits by 49 per cent, from £247,000 to £371,000, in the year ended March 31 1985. Earnings shed 60 per cent to 3.92p and dividend to be 1.85p net per share (1.68p). Current year started well. This USM group continues to introduce new products and processes aimed at complementary parts of the market.

**NETI TECHNOLOGIES**, listed in Vancouver, has arranged a private placement of 200,000 common shares with a group of British pension funds at £0.75 per share. The institutions will be granted the option to purchase an additional 200,000 shares at £0.75 per share exercisable within 30 days.

**TALBEX** had received acceptances in respect of 5.87m Yorkgreen ordinary shares (£2.91 per cent) at July 1, bringing the total acquired by Talbex to 6.18m (55.51 per cent). The offer is now unconditional and will remain open for acceptances until further notice.

## BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interim or final and the sub-divisions shown below are based mainly on last year's timetable.

**TODAY**  
Interim: Norfolk Central.  
Final: Birmingham Mint, Equity Con-

sort Investment Trust, Hollis, Sarosata Technology, R. W. Toothill, Wedgwood.

**FUTURE DATES**  
Interim—  
Anglo-American Securities July 11  
Bristol July 12  
Kennedy Brooks July 8  
Final—  
Intison Leisure July 9  
Memcon International July 31  
Mercantile House July 31

## R. E. A. HOLDINGS plc

(Registered in England No. 671098)

Issue of up to £1,351,612 nominal of 12 per cent convertible unsecured loan stock 2000 ("new convertible stock") of R.E.A. Holdings plc pursuant to the recommended proposal relating to the convertible unsecured loan stock 1985/2000 of Applied Botonics plc.

Copies of the listing particulars containing details of the new convertible stock are available in the Exel Statistical Services. Copies of the listing particulars may also be obtained during normal business hours today and tomorrow from the Company Announcements Office of The Stock Exchange and on any weekday (Saturdays and public holidays excepted) up to and including 22nd July 1985 from:

R.E.A. Holdings plc, N. M. Rothschild & Sons Limited, The Old Rectory, New Court, 51 Swinburn Lane, London EC4P 4DU  
Lawrence, Frost & Co., Basildon House, 7/11 Moorgate, London EC2R 6AH

3rd July 1985

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange

## JOHN MICHAEL DESIGN PLC

(Incorporated under the Companies Act 1948. Registered in England No. 575855)

## SHARE CAPITAL

Authorised £250,000

in Ordinary Shares of 2.5p each

Issued and now being issued fully paid £167,500

## Placing by

Strauss, Turnbull & Co. Limited  
of 2,750,000 Ordinary Shares of 2.5p each at 44p per share

John Michael Design PLC is a leading design consultancy in the United Kingdom, providing services to clients in the United Kingdom and overseas. Its services include retail design, precinct design, graphic communication, hotel and leisure design, project management and the design of hairdressing salons, offices, banks and residential properties.

Application has been made to the Council of The Stock Exchange for the grant of permission to deal in the Ordinary Shares of John Michael Design PLC on the Unlisted Securities Market. A proportion of the shares being placed is available for application by the public through the market during market hours today. It is emphasised that no application has been made for these securities to be admitted to listing.

Particulars relating to the Company have been circulated in the Exel Statistical Services and copies of such particulars may be obtained during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 17th July 1985 from:

United Trust & Credit PLC  
55 Grosvenor Street  
London W1X 9DA

Strauss, Turnbull & Co. Limited  
3 Moorgate Place  
London EC2R 6HR

## George Wills &amp; Sons (Holdings) Plc

of  
Epworth House, 25-35 City Road, London EC1Y 1AN  
Telephone: 01-606 6331 Telex: London 883323 Wills G

## Change of Name

As from 1st July, 1985, the Company's name has been changed to

## Wills Group Plc

The Company's address, telephone and telex number remain the same

This advertisement is published by The Burton Group plc, whose directors (including those who have abstained) have taken all reasonable care to ensure that the facts stated and opinions expressed herein are fair and accurate. Each of the directors accepts responsibility accordingly.

Debenhams  
V Burton:  
who's growing  
faster?

Debenhams have boasted a large increase in earnings per share over the last three financial years.

In reality profit per share attributable to ordinary shareholders only increased by 15% a year.

Burton have achieved annual growth of 33% in the same period. In fact, since Mr Thornton became Chairman, Debenhams' record looks even worse—virtually no growth at all in attributable profits per share since 1981/82. Burton's on the other hand have increased by more than 100%.

Burton management can achieve this kind of growth from Debenhams' assets.

The message is clear. Back Burton.

Debenhams promises—Burton delivers.

The Burton Group habitat/mothercare

## NOTICE OF REDEMPTION

PRIVATBANKEN A/S

NOTICE TO THE NOTE HOLDERS OF 12% NOTES  
DUE 6TH FEBRUARY, 1995

Notice is hereby given that pursuant to the terms of the 12% Notes, US\$9,310,000 principal amount of 12% Notes has been drawn by lot by the undersigned, in the presence of a notary public, for redemption on the 1st August, 1985. The said 12% Notes so called for redemption will therefore be redeemed on the 1st day of August, 1985 at 101% of the principal amount so called, plus accrued and unpaid interest to the date of redemption if applicable upon surrender of the said Notes with, thereto attached, all interest coupons, maturing 6th February, 1986, and thereafter at any of the following paying agents:

- Manufacturers Hanover Limited, 7, Princes Street, London EC2P 2EN.
- Manufacturers Hanover Bank Belgium S.A./N.V., Brussels Head Office, Rue de Ligne 13, B-1000 Brussels.
- Manufacturers Hanover Bank Luxembourg, S.A., 39 Boulevard Prince Henri, Luxembourg.
- Manufacturers Hanover Trust Company, Stockenstrasse 33, 8027 Zurich.

Notice is also hereby given that interest upon Notes so called for redemption shall cease to be payable from and after the said redemption date, namely the 1st day of August, 1985 and coupons for interest maturing after the said date, namely the 1st day of August, 1985, shall be void.

The numbers of the Notes so called for redemption are:

00401	00864	00900	00943	00971	01430	02312
02421	02948	03107	04337	04620	04653	05001
05862	06077	06309	06325	06417	06609	06731
06777	07161	07228	07307	07536	08579	09336
09950	10617	10722	11482	11520	11807	12212
12424	13258	13250	13321	13421	13753	14319
14746	15219	15393	15410	17153	17642	18193
18782	18885	19282	19352	19485	19601	

Also, all Notes of which the last two digits of serial numbers are any of the following: 15 27 30 41 45 63 72 73 98. The principal amount of 12% Notes outstanding after the said redemption date will be US\$61,670,000.

MANUFACTURERS HANOVER LIMITED

3rd July, 1985

Principal Paying Agent

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange.



## Trilion plc

Registered in England No. 1745353

Placing by Capel-Cure Myers  
of 2,563,000 ordinary shares of 10p each  
at 73p per share.

Authorised  
£1,200,000

Share Capital

Issued and to be  
Issued fully paid  
£935,000

Trilion plc and its subsidiaries provide live outside broadcast, post production and production services at many major televised events. The Group also televises and produces light entertainment, drama and music programmes.

Application has been made to the Council of The Stock Exchange for the whole of the issued share capital of the company to be admitted to the Unlisted Securities Market. A proportion of the shares being placed is available to the public through the market. It is emphasised that no application has been made for these securities to be admitted to listing.

Particulars of the company are available in the Exel Unlisted Securities Market and copies of such particulars may be obtained during usual business hours on any weekday (Saturdays and Bank Holidays excepted) up to and including 19th July 1985 from:



CAPEL-CURE MYERS

MEMBERS OF THE STOCK EXCHANGE

Bath House, Holborn Viaduct, London EC1A 2EU

3rd July 1985











# AUTHORISED UNIT TRUSTS & INSURANCES

<p><b>Pearl Trust Managers Ltd. (a)(g)</b> 25, High Street, W1V 7EB Pearl Growth Fd Pearl Income Fd Pearl Div Fd Pearl Bond Fd Pearl Cash Fd Pearl Property Fd Pearl Overseas Fd Pearl Global Fd Pearl Multi-Asset Fd Pearl Multi-Sector Fd Pearl Multi-Region Fd Pearl Multi-Industry Fd Pearl Multi-Commodity Fd Pearl Multi-Asset Class Fd Pearl Multi-Sector Class Fd Pearl Multi-Region Class Fd Pearl Multi-Industry Class Fd Pearl Multi-Commodity Class Fd Pearl Multi-Asset Class Class Fd Pearl Multi-Sector Class Class Fd Pearl Multi-Region Class Class Fd Pearl Multi-Industry Class Class Fd Pearl Multi-Commodity Class Class Fd</p>	<p><b>TSB Unit Trusts (b)(c)(g)</b> PO Box 1, Green Lane, Ashbury, Wexham, SP10 1PG TSB Growth Fd TSB Income Fd TSB Div Fd TSB Bond Fd TSB Cash Fd TSB Property Fd TSB Overseas Fd TSB Global Fd TSB Multi-Asset Fd TSB Multi-Sector Fd TSB Multi-Region Fd TSB Multi-Industry Fd TSB Multi-Commodity Fd TSB Multi-Asset Class Fd TSB Multi-Sector Class Fd TSB Multi-Region Class Fd TSB Multi-Industry Class Fd TSB Multi-Commodity Class Fd TSB Multi-Asset Class Class Fd TSB Multi-Sector Class Class Fd TSB Multi-Region Class Class Fd TSB Multi-Industry Class Class Fd TSB Multi-Commodity Class Class Fd</p>	<p><b>Allied Dunbar Assurance PLC</b> Allied Dunbar Growth Fd Allied Dunbar Income Fd Allied Dunbar Div Fd Allied Dunbar Bond Fd Allied Dunbar Cash Fd Allied Dunbar Property Fd Allied Dunbar Overseas Fd Allied Dunbar Global Fd Allied Dunbar Multi-Asset Fd Allied Dunbar Multi-Sector Fd Allied Dunbar Multi-Region Fd Allied Dunbar Multi-Industry Fd Allied Dunbar Multi-Commodity Fd Allied Dunbar Multi-Asset Class Fd Allied Dunbar Multi-Sector Class Fd Allied Dunbar Multi-Region Class Fd Allied Dunbar Multi-Industry Class Fd Allied Dunbar Multi-Commodity Class Fd Allied Dunbar Multi-Asset Class Class Fd Allied Dunbar Multi-Sector Class Class Fd Allied Dunbar Multi-Region Class Class Fd Allied Dunbar Multi-Industry Class Class Fd Allied Dunbar Multi-Commodity Class Class Fd</p>	<p><b>Confederation Life Insurance Co.</b> Confederation Growth Fd Confederation Income Fd Confederation Div Fd Confederation Bond Fd Confederation Cash Fd Confederation Property Fd Confederation Overseas Fd Confederation Global Fd Confederation Multi-Asset Fd Confederation Multi-Sector Fd Confederation Multi-Region Fd Confederation Multi-Industry Fd Confederation Multi-Commodity Fd Confederation Multi-Asset Class Fd Confederation Multi-Sector Class Fd Confederation Multi-Region Class Fd Confederation Multi-Industry Class Fd Confederation Multi-Commodity Class Fd Confederation Multi-Asset Class Class Fd Confederation Multi-Sector Class Class Fd Confederation Multi-Region Class Class Fd Confederation Multi-Industry Class Class Fd Confederation Multi-Commodity Class Class Fd</p>	<p><b>General Portfolio Life Ins. PLC</b> General Portfolio Growth Fd General Portfolio Income Fd General Portfolio Div Fd General Portfolio Bond Fd General Portfolio Cash Fd General Portfolio Property Fd General Portfolio Overseas Fd General Portfolio Global Fd General Portfolio Multi-Asset Fd General Portfolio Multi-Sector Fd General Portfolio Multi-Region Fd General Portfolio Multi-Industry Fd General Portfolio Multi-Commodity Fd General Portfolio Multi-Asset Class Fd General Portfolio Multi-Sector Class Fd General Portfolio Multi-Region Class Fd General Portfolio Multi-Industry Class Fd General Portfolio Multi-Commodity Class Fd General Portfolio Multi-Asset Class Class Fd General Portfolio Multi-Sector Class Class Fd General Portfolio Multi-Region Class Class Fd General Portfolio Multi-Industry Class Class Fd General Portfolio Multi-Commodity Class Class Fd</p>
<p><b>Proactive Unit Trusts</b> Proactive Growth Fd Proactive Income Fd Proactive Div Fd Proactive Bond Fd Proactive Cash Fd Proactive Property Fd Proactive Overseas Fd Proactive Global Fd Proactive Multi-Asset Fd Proactive Multi-Sector Fd Proactive Multi-Region Fd Proactive Multi-Industry Fd Proactive Multi-Commodity Fd Proactive Multi-Asset Class Fd Proactive Multi-Sector Class Fd Proactive Multi-Region Class Fd Proactive Multi-Industry Class Fd Proactive Multi-Commodity Class Fd Proactive Multi-Asset Class Class Fd Proactive Multi-Sector Class Class Fd Proactive Multi-Region Class Class Fd Proactive Multi-Industry Class Class Fd Proactive Multi-Commodity Class Class Fd</p>	<p><b>3i &amp; Target Fund Mgrs Ltd.</b> 3i Growth Fd 3i Income Fd 3i Div Fd 3i Bond Fd 3i Cash Fd 3i Property Fd 3i Overseas Fd 3i Global Fd 3i Multi-Asset Fd 3i Multi-Sector Fd 3i Multi-Region Fd 3i Multi-Industry Fd 3i Multi-Commodity Fd 3i Multi-Asset Class Fd 3i Multi-Sector Class Fd 3i Multi-Region Class Fd 3i Multi-Industry Class Fd 3i Multi-Commodity Class Fd 3i Multi-Asset Class Class Fd 3i Multi-Sector Class Class Fd 3i Multi-Region Class Class Fd 3i Multi-Industry Class Class Fd 3i Multi-Commodity Class Class Fd</p>	<p><b>Continental Life Insurance PLC</b> Continental Growth Fd Continental Income Fd Continental Div Fd Continental Bond Fd Continental Cash Fd Continental Property Fd Continental Overseas Fd Continental Global Fd Continental Multi-Asset Fd Continental Multi-Sector Fd Continental Multi-Region Fd Continental Multi-Industry Fd Continental Multi-Commodity Fd Continental Multi-Asset Class Fd Continental Multi-Sector Class Fd Continental Multi-Region Class Fd Continental Multi-Industry Class Fd Continental Multi-Commodity Class Fd Continental Multi-Asset Class Class Fd Continental Multi-Sector Class Class Fd Continental Multi-Region Class Class Fd Continental Multi-Industry Class Class Fd Continental Multi-Commodity Class Class Fd</p>	<p><b>Legal &amp; General (U.A.)—Contd.</b> Legal &amp; General Growth Fd Legal &amp; General Income Fd Legal &amp; General Div Fd Legal &amp; General Bond Fd Legal &amp; General Cash Fd Legal &amp; General Property Fd Legal &amp; General Overseas Fd Legal &amp; General Global Fd Legal &amp; General Multi-Asset Fd Legal &amp; General Multi-Sector Fd Legal &amp; General Multi-Region Fd Legal &amp; General Multi-Industry Fd Legal &amp; General Multi-Commodity Fd Legal &amp; General Multi-Asset Class Fd Legal &amp; General Multi-Sector Class Fd Legal &amp; General Multi-Region Class Fd Legal &amp; General Multi-Industry Class Fd Legal &amp; General Multi-Commodity Class Fd Legal &amp; General Multi-Asset Class Class Fd Legal &amp; General Multi-Sector Class Class Fd Legal &amp; General Multi-Region Class Class Fd Legal &amp; General Multi-Industry Class Class Fd Legal &amp; General Multi-Commodity Class Class Fd</p>	<p><b>Property Growth &amp; Life Ass. Co. Ltd.</b> Property Growth Fd Property Income Fd Property Div Fd Property Bond Fd Property Cash Fd Property Property Fd Property Overseas Fd Property Global Fd Property Multi-Asset Fd Property Multi-Sector Fd Property Multi-Region Fd Property Multi-Industry Fd Property Multi-Commodity Fd Property Multi-Asset Class Fd Property Multi-Sector Class Fd Property Multi-Region Class Fd Property Multi-Industry Class Fd Property Multi-Commodity Class Fd Property Multi-Asset Class Class Fd Property Multi-Sector Class Class Fd Property Multi-Region Class Class Fd Property Multi-Industry Class Class Fd Property Multi-Commodity Class Class Fd</p>
<p><b>Providence Capital Fd Mgrs. Ltd.</b> Providence Growth Fd Providence Income Fd Providence Div Fd Providence Bond Fd Providence Cash Fd Providence Property Fd Providence Overseas Fd Providence Global Fd Providence Multi-Asset Fd Providence Multi-Sector Fd Providence Multi-Region Fd Providence Multi-Industry Fd Providence Multi-Commodity Fd Providence Multi-Asset Class Fd Providence Multi-Sector Class Fd Providence Multi-Region Class Fd Providence Multi-Industry Class Fd Providence Multi-Commodity Class Fd Providence Multi-Asset Class Class Fd Providence Multi-Sector Class Class Fd Providence Multi-Region Class Class Fd Providence Multi-Industry Class Class Fd Providence Multi-Commodity Class Class Fd</p>	<p><b>Target Fund Mgrs. Ltd. (a)(g)</b> Target Growth Fd Target Income Fd Target Div Fd Target Bond Fd Target Cash Fd Target Property Fd Target Overseas Fd Target Global Fd Target Multi-Asset Fd Target Multi-Sector Fd Target Multi-Region Fd Target Multi-Industry Fd Target Multi-Commodity Fd Target Multi-Asset Class Fd Target Multi-Sector Class Fd Target Multi-Region Class Fd Target Multi-Industry Class Fd Target Multi-Commodity Class Fd Target Multi-Asset Class Class Fd Target Multi-Sector Class Class Fd Target Multi-Region Class Class Fd Target Multi-Industry Class Class Fd Target Multi-Commodity Class Class Fd</p>	<p><b>Amberstar Life Ass. Co. Ltd.</b> Amberstar Growth Fd Amberstar Income Fd Amberstar Div Fd Amberstar Bond Fd Amberstar Cash Fd Amberstar Property Fd Amberstar Overseas Fd Amberstar Global Fd Amberstar Multi-Asset Fd Amberstar Multi-Sector Fd Amberstar Multi-Region Fd Amberstar Multi-Industry Fd Amberstar Multi-Commodity Fd Amberstar Multi-Asset Class Fd Amberstar Multi-Sector Class Fd Amberstar Multi-Region Class Fd Amberstar Multi-Industry Class Fd Amberstar Multi-Commodity Class Fd Amberstar Multi-Asset Class Class Fd Amberstar Multi-Sector Class Class Fd Amberstar Multi-Region Class Class Fd Amberstar Multi-Industry Class Class Fd Amberstar Multi-Commodity Class Class Fd</p>	<p><b>Legal &amp; General (U.A.)—Contd.</b> Legal &amp; General Growth Fd Legal &amp; General Income Fd Legal &amp; General Div Fd Legal &amp; General Bond Fd Legal &amp; General Cash Fd Legal &amp; General Property Fd Legal &amp; General Overseas Fd Legal &amp; General Global Fd Legal &amp; General Multi-Asset Fd Legal &amp; General Multi-Sector Fd Legal &amp; General Multi-Region Fd Legal &amp; General Multi-Industry Fd Legal &amp; General Multi-Commodity Fd Legal &amp; General Multi-Asset Class Fd Legal &amp; General Multi-Sector Class Fd Legal &amp; General Multi-Region Class Fd Legal &amp; General Multi-Industry Class Fd Legal &amp; General Multi-Commodity Class Fd Legal &amp; General Multi-Asset Class Class Fd Legal &amp; General Multi-Sector Class Class Fd Legal &amp; General Multi-Region Class Class Fd Legal &amp; General Multi-Industry Class Class Fd Legal &amp; General Multi-Commodity Class Class Fd</p>	<p><b>Providence Capital Fd Mgrs. Ltd.</b> Providence Growth Fd Providence Income Fd Providence Div Fd Providence Bond Fd Providence Cash Fd Providence Property Fd Providence Overseas Fd Providence Global Fd Providence Multi-Asset Fd Providence Multi-Sector Fd Providence Multi-Region Fd Providence Multi-Industry Fd Providence Multi-Commodity Fd Providence Multi-Asset Class Fd Providence Multi-Sector Class Fd Providence Multi-Region Class Fd Providence Multi-Industry Class Fd Providence Multi-Commodity Class Fd Providence Multi-Asset Class Class Fd Providence Multi-Sector Class Class Fd Providence Multi-Region Class Class Fd Providence Multi-Industry Class Class Fd Providence Multi-Commodity Class Class Fd</p>
<p><b>San Alliance Fund Management Ltd.</b> San Alliance Growth Fd San Alliance Income Fd San Alliance Div Fd San Alliance Bond Fd San Alliance Cash Fd San Alliance Property Fd San Alliance Overseas Fd San Alliance Global Fd San Alliance Multi-Asset Fd San Alliance Multi-Sector Fd San Alliance Multi-Region Fd San Alliance Multi-Industry Fd San Alliance Multi-Commodity Fd San Alliance Multi-Asset Class Fd San Alliance Multi-Sector Class Fd San Alliance Multi-Region Class Fd San Alliance Multi-Industry Class Fd San Alliance Multi-Commodity Class Fd San Alliance Multi-Asset Class Class Fd San Alliance Multi-Sector Class Class Fd San Alliance Multi-Region Class Class Fd San Alliance Multi-Industry Class Class Fd San Alliance Multi-Commodity Class Class Fd</p>	<p><b>Albany Life Assurance Co. Ltd.</b> Albany Growth Fd Albany Income Fd Albany Div Fd Albany Bond Fd Albany Cash Fd Albany Property Fd Albany Overseas Fd Albany Global Fd Albany Multi-Asset Fd Albany Multi-Sector Fd Albany Multi-Region Fd Albany Multi-Industry Fd Albany Multi-Commodity Fd Albany Multi-Asset Class Fd Albany Multi-Sector Class Fd Albany Multi-Region Class Fd Albany Multi-Industry Class Fd Albany Multi-Commodity Class Fd Albany Multi-Asset Class Class Fd Albany Multi-Sector Class Class Fd Albany Multi-Region Class Class Fd Albany Multi-Industry Class Class Fd Albany Multi-Commodity Class Class Fd</p>	<p><b>General Accident Life Assurance Co. Ltd.</b> General Accident Growth Fd General Accident Income Fd General Accident Div Fd General Accident Bond Fd General Accident Cash Fd General Accident Property Fd General Accident Overseas Fd General Accident Global Fd General Accident Multi-Asset Fd General Accident Multi-Sector Fd General Accident Multi-Region Fd General Accident Multi-Industry Fd General Accident Multi-Commodity Fd General Accident Multi-Asset Class Fd General Accident Multi-Sector Class Fd General Accident Multi-Region Class Fd General Accident Multi-Industry Class Fd General Accident Multi-Commodity Class Fd General Accident Multi-Asset Class Class Fd General Accident Multi-Sector Class Class Fd General Accident Multi-Region Class Class Fd General Accident Multi-Industry Class Class Fd General Accident Multi-Commodity Class Class Fd</p>	<p><b>Legal &amp; General (U.A.)—Contd.</b> Legal &amp; General Growth Fd Legal &amp; General Income Fd Legal &amp; General Div Fd Legal &amp; General Bond Fd Legal &amp; General Cash Fd Legal &amp; General Property Fd Legal &amp; General Overseas Fd Legal &amp; General Global Fd Legal &amp; General Multi-Asset Fd Legal &amp; General Multi-Sector Fd Legal &amp; General Multi-Region Fd Legal &amp; General Multi-Industry Fd Legal &amp; General Multi-Commodity Fd Legal &amp; General Multi-Asset Class Fd Legal &amp; General Multi-Sector Class Fd Legal &amp; General Multi-Region Class Fd Legal &amp; General Multi-Industry Class Fd Legal &amp; General Multi-Commodity Class Fd Legal &amp; General Multi-Asset Class Class Fd Legal &amp; General Multi-Sector Class Class Fd Legal &amp; General Multi-Region Class Class Fd Legal &amp; General Multi-Industry Class Class Fd Legal &amp; General Multi-Commodity Class Class Fd</p>	<p><b>Providence Capital Fd Mgrs. Ltd.</b> Providence Growth Fd Providence Income Fd Providence Div Fd Providence Bond Fd Providence Cash Fd Providence Property Fd Providence Overseas Fd Providence Global Fd Providence Multi-Asset Fd Providence Multi-Sector Fd Providence Multi-Region Fd Providence Multi-Industry Fd Providence Multi-Commodity Fd Providence Multi-Asset Class Fd Providence Multi-Sector Class Fd Providence Multi-Region Class Fd Providence Multi-Industry Class Fd Providence Multi-Commodity Class Fd Providence Multi-Asset Class Class Fd Providence Multi-Sector Class Class Fd Providence Multi-Region Class Class Fd Providence Multi-Industry Class Class Fd Providence Multi-Commodity Class Class Fd</p>

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## CURRENCIES, MONEY and CAPITAL MARKETS

## FOREIGN EXCHANGES

## Dollar quiet and dull

The dollar was slightly higher on the day, but trading was very quiet on the foreign exchanges, and the U.S. currency closed near its lowest on record today. Higher U.S. interest rates, with Federal funds finishing at 9 per cent on Monday in New York, and an early rise in Eurodollar rates, gave the dollar an initial boost. Strong resistance around DM 3.0250 on Monday was also seen to provide some support. Yesterday's figures on U.S. factor orders—rising 3.1 per cent in May compared with a fall of 0.3 per cent in April—and single family home sales—rising 9.7 per cent in May against a revised drop of 11.5 per cent in April—provided a little further demand for the dollar in the early afternoon but this was short-lived, and the currency declined towards the European close.

The dollar rose to DM 3.0450 from DM 3.0410; FF 8.27 from FF 8.2625; and £1.2450 from £1.2440, but fell to SwFr 2.5670 from SwFr 2.5685. On Bank of England figures the dollar's index rose to 144.3 from 143.5.

**STERLING**—Trading range against the dollar in 1985 is 1.5100 to 1.0525. June average

## POUND SPOT-FORWARD AGAINST POUND

July 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.2390-1.2390	1.2400-1.2400	0.56-0.56	pm	5.01	1.54-1.54
Canada	1.7600-1.7600	1.7600-1.7600	0.01	pm	5.01	1.54-1.54
Belgium	78.20-78.20	78.20-78.20	30-30	pm	5.01	1.54-1.54
Denmark	14.22-14.22	14.22-14.22	4-4	pm	5.01	1.54-1.54
France	1.2390-1.2390	1.2400-1.2400	0.56-0.56	pm	5.01	1.54-1.54
Germany	3.36-3.36	3.36-3.36	2-2	pm	5.01	1.54-1.54
Italy	2.52-2.52	2.52-2.52	2-2	pm	5.01	1.54-1.54
Japan	17.80-17.80	17.80-17.80	3-3	pm	5.01	1.54-1.54
Norway	12.00-12.00	12.00-12.00	2-2	pm	5.01	1.54-1.54
Sweden	11.42-11.42	11.42-11.42	3-3	pm	5.01	1.54-1.54
Switzerland	2.70-2.70	2.70-2.70	2-2	pm	5.01	1.54-1.54
U.S.	1.2390-1.2390	1.2400-1.2400	0.56-0.56	pm	5.01	1.54-1.54

Six-month forward dollar 2.58-2.58, 12-month 4.25-4.10 pm.

## OTHER CURRENCIES

July 2	£	\$	£
Argentina Austl.	1.0415-1.0415	0.0000-0.0000	97.80-97.80
Australia Austl.	1.9520-1.9520	1.9520-1.9520	80.05-80.05
Brazil Cruzeiro	1.7512-1.7512	1.7512-1.7512	14.17-14.17
Canada	1.7600-1.7600	1.7600-1.7600	14.17-14.17
Denmark	14.22-14.22	14.22-14.22	14.17-14.17
France	1.2390-1.2390	1.2400-1.2400	14.17-14.17
Germany	3.36-3.36	3.36-3.36	14.17-14.17
Italy	2.52-2.52	2.52-2.52	14.17-14.17
Japan	17.80-17.80	17.80-17.80	14.17-14.17
Norway	12.00-12.00	12.00-12.00	14.17-14.17
Sweden	11.42-11.42	11.42-11.42	14.17-14.17
Switzerland	2.70-2.70	2.70-2.70	14.17-14.17
U.S.	1.2390-1.2390	1.2400-1.2400	14.17-14.17

\* Selling rate.

## EXCHANGE CROSS RATES

July 2	£	\$	£
Pound Sterling	1.0000	1.0000	1.0000
U.S. Dollar	0.787	1.000	1.270
Deutsche Mark	0.852	0.852	1.000
Japanese Yen	0.008	0.008	123.60
French Franc	0.000	0.000	6.55
Swiss Franc	0.852	0.852	1.000
Dutch Guilder	0.376	0.376	1.000
Italian Lira	0.000	0.000	2036.27
Canadian Dollar	0.787	0.787	1.270
Belgian Franc	0.000	0.000	36.36

## EURO-CURRENCY INTEREST RATES (Market closing rates)

July 1	Starting	U.S. Dollar	Canadian Dollar	Dutch Franc	Swiss Franc	Deutsche Mark	French Franc	Italian Lira	Belgian Franc	Yen	Danish
Short-term	12 1/2-13 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2
Three months	12 1/2-13 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2
Six months	12 1/2-13 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2
One year	12 1/2-13 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2	8 1/2-9 1/2

Asian \$ (closing rates in Singapore): Short-term 7 1/2-8 per cent; seven days 7 1/2-8 per cent; one month 7 1/2-8 per cent; three months 7 1/2-8 per cent; six months 7 1/2-8 per cent; one year 8 1/2-9 per cent. Long-term Eurodollars: two years 9 1/2-10 per cent; three years 9 1/2-10 per cent; four years 10-10 1/2 per cent; five years 10-10 1/2 per cent. Short-term rates are call for U.S. dollars and Japanese yen; others two days' notice.

## MONEY MARKETS

## Firmier tone in London

Interest rates had a slightly firmer tone on the London money market yesterday ahead of the meeting of ministers from the Organisation for Economic Co-operation and Development on Friday and next week's UK money supply figures. Nervousness about oil prices, and the possible impact on sterling, was reinforced by rumours that the Soviet Union was selling oil at a discount, while next Tuesday's June money supply figures are not expected to be particularly encouraging, as far as lingering hopes of lower clearing bank base rates are concerned. Three-month sterling interbank closed unchanged at 12 1/2-13 per cent.

## UK clearing banks base

lending rate 12 1/2 per cent since June 13

## and discount houses buying rates

for three-month bank bills were steady at 12 1/2 per cent, but longer period rates rose by about 1/2 per cent.

## The Bank of England forecast

a money market shortage of £500m, but later changed to £250m, and provided total help on the day of £242m.

## An early round of assistance

was offered, and at that time the authorities bought £50m bills out-

right, by way of £4m bank bills

in band 1 (up to 14 days maturity) at 12 1/2 per cent; £15m

in band 2 (15-33 days) at 12 1/2 per cent; £22m bank bills

in band 3 (34-63 days) at 12 1/2 per cent; and £16m bank bills

in band 4 (64-91 days) at 12 per cent.

Another £145m bills were purchased outright before lunch, through £23m bank bills in band 1 at 12 1/2 per cent; £51m bank

bills in band 2 at 12 1/2 per cent;

£39m bank bills in band 3 at 12 1/2 per cent; and £22m bank bills

in band 4 at 12 per cent.

The Bank of England also provided late assistance of £125m.

Bill maturing in official hands, the result of late 1984 and 1985, a take-up of Treasury

drained £578m, with the unwinding of repurchase agreements

absorbing £151m. Exchange transactions £225m; and bank

balances below target another £20m. These were partly offset

by a fall in the note circulation adding £25m to liquidity.

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INDUSTRIALS - Continued

1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	98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## LONDON STOCK EXCHANGE

## MARKET REPORT

## Extension of equity market recovery falters after GEC preliminary statement

## Account Dealing Dates

## Option

\*First Declara- Last Account  
Dealings Dealing Date  
July 1 July 27 June 28 July 8  
July 1 July 11 July 12 July 25  
July 15 July 25 July 26 Aug 5

"New-time" dealings may take  
place from 9.30 am two business days  
earlier

Another good recovery movement in London equities was reversed an hour or so before the official close yesterday following the receipt of GEC's preliminary statement. The group's annual profits, though higher than the previous year, were mildly disappointing at £725m and came as an anti-climax to an electrical sector desperately seeking good tidings after a series of recent disasters. Sentiment throughout equities was affected as a whole and the FT Ordinary share index surrendered much of an eight-point gain to close only 1.8 up on the session at 864.

Some electricals gave ground but marginal falls were soon regained and GEC, after rising to 170p ahead of the figures and falling to 165p afterwards, closed unchanged on the session at 165p. Remaining electricals, with the exception of Racal Electronics, settled slightly firmer for choice.

Equity investors earlier had derived encouragement from Wall Street's impressive performance overnight; the Dow Jones index after being several points down rebounded late in an all-time high. Most leading shares benefited from the renewed buying until interest dried up on reports, later confirmed, about the outcome of English China Clay's issue of new stock. It was said that some 48 per cent of the issue had been left with the underwriters who, after a struggle, had successfully placed the stock. This added fuel for the much larger issue by Hanson Trust, whose new nil-paid shares consequently slipped to only 1p premium.

The 3.30 pm announcement of a change in the capital gains tax treatment of gilt-edged securities and qualifying corporate bonds enlivened a lethargic market. Index-linked issues rose as much as 4p and low-coupon conventional gilts also attracted revived attention as attempts were made to switch from high-coupon stocks. Only a few swaps were successful but selected low-coupon issues still managed late gains extending to 1p.

The two newcomers to the United Securities Market made quiet debuts. Goodhead Print touched 50p before settling at 48p compared with the placing price of 88p, while Leisure Investments, which were introduced, closed at 26p.

Clearers quietly firm

Clearing banks took Monday's technical recovery as a stage further. The volume of trade left much to be desired but the session ended 13 higher at 387p and NatWest 7 to the good at 662p. Lloyds firmed 5 to 387p as did Midland, to 380p. Else-

## FINANCIAL TIMES STOCK INDICES

	July 2	July 1	June 28	June 27	June 26	June 25	Year ago
Government Secs.	81.96	81.92	81.70	81.86	81.81	81.77	78.09
Fixed Interest	86.74	86.67	86.39	86.42	86.37	86.35	82.31
Ordinary	864.5	862.5	858.5	859.5	858.5	857.1	821.3
Gold Mines	405.9	405.8	425.1	432.2	439.0	445.5	606.5
Ord. Div. Yield	4.85	4.87	4.93	4.95	4.93	4.88	4.83
Earnings, Div./Full	12.17	12.10	12.05	12.01	12.05	12.17	11.58
P/E Ratio-net/Full	10.04	10.01	9.98	9.98	9.98	10.04	10.71
Total bargains	21,099	22,190	23,628	21,256	21,762	21,706	17,530
Equity turnover £m.	288.30	270.20	400.58	374.96	385.18	183.98	
Equity bargains	20,812	20,165	18,762	17,707	20,895	12,461	
Shares traded (m.)	184.1	211.9	203.5	209.5	202.0	120.7	

10 am 958.1, 11 am 960.7, Noon 960.7, 1 pm 960.5, 2 pm 960.8, 3 pm 954.5.

Basis 100 Govt. Secs. 16/28, Fixed Int. 1928, Ordinary 1/7/35.

Gold Mines 12/10/55, SE Activity 1974.

Latest Index 01-248 9025.

\*Nil = 9.72.

1 Corrected

## HIGHS AND LOWS S.E. ACTIVITY

	1983	Since Completion	July 1	June 28
Govt. Secs.	81.96	81.92	81.70	81.86
Fixed Int.	86.74	86.67	86.39	86.42
Ordinary	864.5	862.5	858.5	859.5
Gold Mines	405.9	405.8	425.1	432.2

little lasting impression on other leading Electricals. Racal, still depressed by the recent profits warning and talk that a large slice of shares was to be sold, fell 6 more to a 1985 low of 132p. Thorn EMI, at 360p, gave back 7 of the previous day's gain of 12 following comment on the chairman's statement that the annual figures are scheduled for Friday and the board have forecast reduced earnings but a maintained dividend. STC, after dipping to 134p, rallied to finish a couple of pence dearer at 138p on speculation that either GEC or British Telecom could acquire ITT's 24 per cent stake in the company; BT hardened a penny to 170p. BICC, at 205p, and Plessey, at 124p, both closed unaltered at their overnight levels. Elsewhere, MicroFocus rallied 2p in a thin market to 185p, after 205p, and Sound International continued to reflect Press comment with a further rise of 4 to 64p, after 70p. Speculative buying lifted Crystalline 8 to 133p and Voice 10 to 128p.

Reed Int. below best

Revised demand took Reed International up to 625 initially before sellers appeared and left a gap of 19 up on the day at 612p. Metal Box was noteworthy for a rise of 12 to 460p following the annual report, but other leading miscellaneous industrial leaders closed with gains of only a few pence after showing rises of around 5 and sometimes more. Elsewhere, Channel Tunnel came to life with a rise of 20 to 170p after the release of outline plans by a major consortium of British and French companies for a channel tunnel. Applied Computer, still reflecting the company's agreement to subscribe for 30 per cent of the issued capital of Barons Computers of Australia, advanced 10 more to 140p. Speculative interest lifted Macarthy Pharmaceuticals 6 more to 185p, while Applied stood out with a gain of 22 to 302p, after 310. Low and Bonar moved up 13 to 243p in belated response to the release of a revised prospectus for F. H. Tomkins, 8 up at 188p, while Polly Peck improved a fresh to end 7 higher at 240p. Other bright spots included De La Rue, 27 to the good at 880p, Reuters 8, 9 higher at 334p, and Sale Tilney, 7 dearer at 215p. Package tour operators fared well in the Leisure sector. Intabus rose 5 to 133p as buyers began to show increased interest ahead of next Tuesday's results, while Horizon closed 6 up at 240p.

on 7 to 144p, while Bullough gained 16 to 235p and APV 10 to 275p. RHP edged up 4 to 58p. Among the leaders, Vickers were outstanding again and closed 9 higher at 287p. Manufacturers led the way in Food. Tate and Lyle put on 6 to 485p and Rowntree Macintosh 7 to 385p. Elsewhere, J. Sainsbury improved 4 to 305p as did Nurdin and Peacock, to 243p, while William Morrison gained 6 to 130p and Tesco 5 to 248p. Hotels continued on a quietly firm note with TTX a penny dearer at 132p. Norfolk Capital hardened a penny to 23p awaiting today's interim figures.

Gold down again

The latest bout of pressure on precious metals took pressure down to over a three-months low of \$309 for a loss of \$4.25 and prompted renewed weakness throughout mining markets.

South African Golds opened on a reasonably steady note, helped by modest but persistent Continental buying of the leaders. However, the subsequent decline in bullion quickly put paid to the overseas support and the sector gave ground across the board to close at or around the day's lowest levels.

The Gold Mines index posted a further 13.9 fall to 405.8, extending its decline over the past five sessions to one of 38.6. Many of the top quality issues fell away to their lowest levels this year, including Randfontein, £11 down at £73. Vaal Reefs, £11 down at £56. Winkelsham, £11 lower at £191 and Western Holdings, which fell almost a point to £180. South African Financials and Platinum suffered along with Gold. Impala Platinum proved

especially vulnerable and gave up 18 to 712p while Lydenburg dropped 10 to 510p and Rustenburg a few pence to 607p. Notable weak spots in the financials group included "Johnnies," a point lower at £84, and Gold Fields of South Africa and Gecor which eased 1 apiece at £121 and £111 respectively.

Total contracts struck in Traded Options amounted to only 5,808—well short of last week's volume. Much of the session's activity centred on GEC which announced full-year figures and attracted 431 calls, 297 in the July 180s, and 465 puts, 373 in the July 160s.

Wright Collins Rutherford Scott, the advertising agency, advanced 20 to 353p amid vague rumours of a takeover bid.

A number of American concerns were suggested as possible suitors, as were Saatchi and Saatchi, 20 up at 560p.

Some firm features emerged in Properties. Regent rose 34 to 291p on news of the agreed bid from Messrs. R. and D. Richardson, while Mowlem gained 20 to 385p, after 380p, in response to the preliminary results and acquisition details. Connells put on 5 to 123p following the purchase of Collier and Madge, a firm of chartered surveyors and property consultants. Balfour Beatty improved 4 to 82p, while similar improvements were seen in Percy Bilton, 218p, and Estates and General, 101p. C. H. Beazer added 8 at 373p. Among leading issues, Land Securities were 5 to the good at 265p and MEPC 3 dearer at 274p.

Further consideration of the preliminary figures and proposed enfranchisement lifted Milling north Morris 2 more to 88p with the shares another 3 to the good at 82p. Courtauld also hardened 2, at 143p, but other Textiles gave ground in general.

David Bull, the investment manager, added 2 to 105p, while International, 255p, and Scots Patens, 161p, eased a couple of pence apiece, as did Textured Jersey at 94p, the last-mentioned on investment recommendations from brokers of Zoetel and Bevan.

Lasmo advance

Oils took Monday's technical rally a stage further. The leaders continued to edge higher in the run-up to Friday's full meeting of Opec oil ministers at Baghdad as investors continued to attract U.S. support and put on 5 more to 710p—a two-day gain of 13—while BP touched 529p prior to closing unchanged on a basis at 529p. British hardened a few pence to 215p, after 215p while LASMO were a strong market and finally 13 firmer at 258p, after 260p, still reflecting the recent oil drilling success in Australia. Onshore exploration and production issues were particularly favoured among the secondary oils.

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## RECENT ISSUES

## EQUITIES

Issue price	1983	Stock	Change	+ or -
	High	Low		
195	F.P. 26.6	106	95	Abbeycroft 10p
196	F.P. 26.6	106	95	Abbeycroft 10p
197	F.P. 26.6	106	95	Abbeycroft 10p
198	F.P. 26.6	106	95	Abbeycroft 10p
199	F.P. 26.6	106	95	Abbeycroft 10p
200	F.P. 26.6	106	95	Abbeycroft 10p
201	F.P. 26.6	106	95	Abbeycroft 10p
202	F.P. 26.6	106	95	Abbeycroft 10p
203	F.P. 26.6	106	95	Abbeycroft 10p
204	F.P. 26.6	106	95	Abbeycroft 10p
205	F.P. 26.6	106	95	Abbeycroft 10p
206	F.P. 26.6	106	95	Abbeycroft 10p
207	F.P. 26.6	106	95	Abbeycroft 10p
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215	F.P. 26.6	106	95	Abbeycroft 10p
216	F.P. 26.6	106	95	Abbeycroft 10p
217	F.P. 26.6	106	95	Abbeycroft 10p
218	F.P. 26.6	106	95	Abbeycroft 10p
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405	F.P. 26.6	106	95	Abbeycroft 10p
406	F.P. 26.6	106	95	Abbeycroft 10p
407	F.P. 26.6	106	95	Abbeycroft 10p
408	F.P. 26.6	106	95	Abbeycroft 10p
409	F.P. 26.6	106	95	Abbeycroft 10p
410	F.P. 26.6	106	95	Abbeycroft 10p
411	F.P. 26.6	106	95	Abbeycroft 10p
412	F.P. 26.6	106	95	Abbeycroft 10p
413	F.P. 26.6	106	95	Abbeycroft 10p
414	F.P. 26.6	106	95	Abbeycroft 10p
415	F.P. 26.6	106	95	Abbeycroft 10p
416	F.P. 26.6	106	95	Abbeycroft 10p
417	F.P. 26.6	106	95	Abbeycroft 10p
418	F.P. 26.6	106	95	Abbeycroft 10p
419	F.P. 26.6	106	95	Abbeycroft 10p
420	F.P. 26.6	106	95	Abbeycroft 10p
421	F.P. 26.6	106	95	Abbeycroft 10p
422	F.P. 26.6	106	95	Abbeycroft 10p
423	F.P. 26.6	106	95	Abbeycroft 10p
424	F.P. 26.6	106	95	Abbeycroft 10p
425	F.P. 26.6	106	95	Abbeycroft 10p
426	F.P. 26.6	106	95	Abbeycroft 10p
427	F.P. 26.6	106	95	Abbeycroft 10p
428	F.P. 26.6	106	95	Abbeycroft 10p
429	F.P. 26.6	106	95	Abbeycroft 10p
430	F.P. 26.6	106	95	Abbeycroft 10p
431	F.P. 26.6	106	95	Abbeycroft 10p
432	F.P. 26.6	106	95	Abbeycroft 10p
433	F.P. 26.6	106	95	Abbeycroft 10p
434	F.P. 26.6	106	95	Abbeycroft 10p
435	F.P. 26.6	106	95	Abbeycroft 10p
436	F.P. 26.6			



مكتبة ابن خلدون

# CANADA

Sales	Stocks	High	Low	Class	Chng	Sales	Stocks	High	Low	Class	Chng	Sales	Stocks	High	Low	Class	Chng	Sales	Stocks	High	Low	Class	Chng
TORONTO																							
Prices at 2:30pm																							
July 2																							
300	Abn Price	\$194	181	-	-	300	Celan	175	p	\$18 1/2	141	1100	peco int	211	214	+	+	6815	Scoplex	55 1/2	54	55	+
1200	Agness E	\$154	154	154	+	100650	Centri Tr	174	134	141	+	5707	Ri Saw Co	52 1/2	50	20 1/2	+	12200	Scotts	27 1/2	27	27	+
10442	Al Energy	\$101	101	101	+	36270	Cimprex	59 1/2	59	59	+	72014	truman	25 1/2	26 1/2	+	+	2000	Seare Can	58 1/2	58	58	+
2850	Algoima St	\$211	21	-	-	31440	C Dett A	114	114	114	+	1120	Int'l	12 1/2	12 1/2	+	+	6000	Sherrill	57 1/2	57	57	+
600	Angcon	\$114	114	114	+	61900	CI Batts	38	6	6	+	1230	Int'l Gas	20 1/2	20 1/2	+	+	8930	Sherrill	57 1/2	57	57	+
300	Arcon C pr	\$107	107	107	+	2570	Clk Bank	151	107 1/2	11	-	5660	Int'l Thon	23 1/2	23 1/2	+	+	34302	Southern	56 1/2	61	63	+
20	B100	\$107	107	107	+	2570	Clk Bank	151	107 1/2	11	-	5660	Int'l Thon	23 1/2	23 1/2	+	+	14374	Spru Roro I	27 1/2	27 1/2	27 1/2	+
300	Bk Canada	\$321	321	321	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	2000	Stearns	56 1/2	56	56	+
23875	Bnk Bk	\$354	354	354	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	9513	Steco A	21 1/2	19 1/2	19 1/2	+
1000	Bk M S	\$154	154	154	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	400	Sulphur	241	240	240	+
1500	Barrock D	\$131	132	132	132	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
2562	Batton A	\$385	375	375	-10	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	Batlorne	\$480	480	480	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
2500	Bd Cn	\$201	201	201	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
3002	BOPF	\$91	91	91	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
28510	Bk Ras	\$241	240	240	-	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
2500	Bu Cn	\$154	154	154	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
2500	Bunwest	\$121	121	121	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
2500	Bud Cn	\$201	201	201	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
31205	CC	\$154	154	154	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
400	CC L	\$15	15	15	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Nat	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	1000	Sulphur	241	240	240	+
500	CC Packer	\$241	241	241	+	575	Commer Pk	24	24	24	+	575	Commer Pk	24	24	24	+	600	Sulphur	241	2		

## Indices

NEW YORK

DOWN JONES

1985													1985													
Smo Completion													Smo Completion													
July 2	July 23	June 26	June 27	June 28	June 29	June 30	High	Low	High	Low	High	Low	July 2	July 23	June 26	June 27	June 28	June 29	June 30	High	Low	High	Low	High	Low	
Industrials	1,387.48	1,337.14	1,333.46	1,327.71	1,323.61	1,323.03	1,327.14	1,314.98	1,337.14	1,312.22	1,327.14	1,312.22	AUSTRALIA	1,387.48	1,337.14	1,333.46	1,327.71	1,323.61	1,323.03	1,327.14	1,314.98	1,337.14	1,312.22	1,327.14	1,312.22	
Transport	876.85	872.84	864.89	863.84	859.48	858.99	872.84	853.03	872.84	853.03	872.84	853.03	ALLIANCE	876.85	872.84	864.89	863.84	859.48	858.99	872.84	853.03	872.84	853.03	872.84	853.03	
Utilities	165.42	165.37	164.85	164.85	163.85	164.50	166.85	164.84	166.85	164.84	166.85	164.84	AMERICA	165.42	165.37	164.85	164.85	163.85	164.50	166.85	164.84	166.85	164.84	166.85	164.84	
Trading Vol	55m	105.2m	107.8m	94.1m	115.6m	115.6m	115.6m	115.6m	115.6m	115.6m	115.6m	115.6m	BELGIUM	55m	105.2m	107.8m	94.1m	115.6m	115.6m	115.6m	115.6m	115.6m	115.6m	115.6m	115.6m	
Int'l Div Yield %	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	DENMARK	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	
STANDARD AND POORS	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	FRANCE	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	4.56	
July 2	July 23	June 26	June 27	June 28	June 29	June 30	High	Low	High	Low	High	Low	GERMANY	July 2	July 23	June 26	June 27	June 28	June 29	June 30	High	Low	High	Low	High	Low
Industrials	212.38	212.42	211.32	211.27	209.87	209.44	212.47	209.44	212.47	209.44	212.47	209.44	HONG KONG	212.38	212.42	211.32	211.27	209.87	209.44	212.47	209.44	212.47	209.44	212.47	209.44	
Composites	182.65	182.43	181.85	181.23	180.85	180.74	182.43	180.85	182.43	180.85	182.43	180.85	ITALY	182.65	182.43	181.85	181.23	180.85	180.74	182.43	180.85	182.43	180.85	182.43	180.85	
Int'l Div Yield %	3.80	3.77	3.73	3.71	3.71	3.71	3.80	3.71	3.80	3.71	3.80	3.71	JAPAN**	3.80	3.77	3.73	3.71	3.71	3.71	3.80	3.71	3.80	3.71	3.80	3.71	
Int'l P/E Ratio	11.85	11.54	11.78	11.78	11.78	11.78	11.85	11.78	11.85	11.78	11.85	11.78	KORIA	11.85	11.54	11.78	11.78	11.78	11.78	11.85	11.78	11.85	11.78	11.85	11.78	
Long Term Bond Yield	19.22	19.31	19.05	19.05	19.05	19.05	19.22	19.05	19.22	19.05	19.22	19.05	NETHERLANDS	19.22	19.31	19.05	19.05	19.05	19.05							

N.Y.S.E ALL COMMON

1985													1985												
Rises and Falls													Rises and Falls												
July 2	July 23	June 26	June 27	June 28	June 29	June 30	High	Low	High	Low	High	Low	July 2	July 23	June 26	June 27	June 28	June 29	June 30	High	Low	High	Low	High	Low
111.48	111.48	111.11	110.72	111.45	111.45	111.45	111.48	111.45	111.48	111.45	111.48	111.45	111.48	111.48	111.11	110.72	111.45	111.45	111.45	111.48	111.45	111.48	111.45	111.48	111.45

NEW YORK ACTIVE STOCKS

1985													1985														
Change													Change														
Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change
AT & T	1,495.50	24	+	Fed. Nat. Mort.	1,068.50	21	+	AT & T	1,495.50	24	+	Fed. Nat. Mort.	1,068.50	21	+	AT & T	1,495.50	24	+	Fed. Nat. Mort.	1,068.50	21	+	AT & T	1,495.50	24	+
Time Mirror	1,495.50	57	+	Am. Hosp. Corp.	1,068.50	21	+	Time Mirror	1,495.50	57	+	Am. Hosp. Corp.	1,068.50	21	+	Time Mirror	1,495.50	57	+	Am. Hosp. Corp.	1,068.50	21	+	Time Mirror	1,495.50	57	+
Merrill Lynch	1,495.50	33	+	Talco Eds.	1,068.50	21	+	Merrill Lynch	1,495.50	33	+	Talco Eds.	1,068.50	21	+	Merrill Lynch	1,495.50	33	+	Talco Eds.	1,068.50	21	+	Merrill Lynch	1,495.50	33	+
Pacific Tel	1,495.50	78	+	Pharm-Salmon	1,068.50	21	+	Pacific Tel	1,495.50	78	+	Pharm-Salmon	1,068.50	21	+	Pacific Tel	1,495.50	78	+	Pharm-Salmon	1,068.50	21	+	Pacific Tel	1,495.50	78	+
Phil. Pet. W	1,495.50	11	+	IBM	1,068.50	21	+	Phil. Pet. W	1,495.50	11	+	IBM	1,068.50	21	+	Phil. Pet. W	1,495.50	11	+	IBM	1,068.50	21	+	Phil. Pet. W	1,495.50	11	+

TORONTO

1985													1985												
July 2	July 23	June 26	June 27	June 28	June 29	June 30	High <td>Low<td>High<td>Low<td>High<td>Low</td><td>July 2</td><td>July 23</td><td>June 26</td><td>June 27</td><td>June 28</td><td>June 29</td><td>June 30</td><td>High<td>Low<td>High<td>Low<td>High<td>Low</td></td></td></td></td></td></td></td></td></td>	Low <td>High<td>Low<td>High<td>Low</td><td>July 2</td><td>July 23</td><td>June 26</td><td>June 27</td><td>June 28</td><td>June 29</td><td>June 30</td><td>High<td>Low<td>High<td>Low<td>High<td>Low</td></td></td></td></td></td></td></td></td>	High <td>Low<td>High<td>Low</td><td>July 2</td><td>July 23</td><td>June 26</td><td>June 27</td><td>June 28</td><td>June 29</td><td>June 30</td><td>High<td>Low<td>High<td>Low<td>High<td>Low</td></td></td></td></td></td></td></td>	Low <td>High<td>Low</td><td>July 2</td><td>July 23</td><td>June 26</td><td>June 27</td><td>June 28</td><td>June 29</td><td>June 30</td><td>High<td>Low<td>High<td>Low<td>High<td>Low</td></td></td></td></td></td></td>	High <td>Low</td> <td>July 2</td> <td>July 23</td> <td>June 26</td> <td>June 27</td> <td>June 28</td> <td>June 29</td> <td>June 30</td> <td>High<td>Low<td>High<td>Low<td>High<td>Low</td></td></td></td></td></td>	Low	July 2	July 23	June 26	June 27	June 28	June 29	June 30	High <td>Low<td>High<td>Low<td>High<td>Low</td></td></td></td></td>	Low <td>High<td>Low<td>High<td>Low</td></td></td></td>	High <td>Low<td>High<td>Low</td></td></td>	Low <td>High<td>Low</td></td>	High <td>Low</td>	Low
111.48	111.48	111.11	110.72	111.45	111.45	111.45	111.48	111.45	111.48	111.45	111.48	111.45	111.48	111.48	111.11	110.72	111.45	111.45	111.45	111.48	111.45	111.48	111.45	111.48	111.45

NEW YORK ACTIVE STOCKS

1985													1985														
Change													Change														
Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change	Monday	Stocks	Closing	Change
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Phil. Pet. W	1,495.50	11	+	IBM	1,068.50	21	+	Phil. Pet. W	1,495.50	11	+	IBM	1,068.50	21	+	Phil. Pet. W	1,495.50	11	+	IBM	1,068.50	21	+	Phil. Pet. W	1,495.50	11	+

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111.48	111.48	111.11	110.72	111.45	111.45	111.45	111.48	111.45	111.48	111.45	111.48	111.45	111.48	111.48	111.11	110.72	111.45	111.45	111.45	111.48	111.45	111.48	111.45	111.48	111.45

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Pacific Tel																											

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### Chief price changes

LONDON		(in pence unless otherwise indicated)	
RISES			
Tr. 2½% IL 2009 .....	£ 89	+ ½	
Appleford (A&F) .....	302	+ 22	
Applied Com .....	140	+ 10	
Baker Perkins .....	177	+ 8	
Barclays .....	387	+ 12	
Betalis .....	82	+ 7	
Body Shop Int .....	665	+ 70	
Carless Cap .....	165	+ 10	
Channel Tunnel .....	170	+ 20	
Cornells Estate .....	123	+ 8	
Dunhill .....	320	+ 25	
Horizon Travel .....	112	+ 6	
Intasun Leisure .....	133	+ 5	
LASMO .....	258	+ 13	
Low & Bonar .....	243	+ 13	
Lucas Inds .....	315	+ 6	
Metal Box .....			460
Micro Focus .....			195
Mountleigh .....			385
Pepe .....			83
Reed Int .....			612
Regent Crest .....			299
Rowntree Mackin .....			365
Tate & Lyle .....			466
Vickers .....			267
Wight Collins .....			353
FALLS			
Racal Elects .....			132
Rothschild (J) .....			95
Thorn EMI .....			360
Winkelhaak .....			£194

every Friday  
in the Financial Times

## “What’s special about these Danish companies?”

**ABN Bank Copenhagen Branch, Assurandor-Societetet, Berlingske Tidende, Bikuben Savings Bank, Bolinden, Busch-&Deichmann, Danish Steel Works Ltd., Danish Telecom International A/S, Danish Turkey Dairies Ltd., Dannebrog Shipyard Ltd., A/S De Danske Sukkerfabrikker, Domi A/S, Duracell-Daimon A/S, East Asiatic Co. Ltd. (A/S Det Østasiatiske Kompagni), A/S Elizabeth Arden, Ess-Food, F. L. Smith & Co. A/S, Forlaget Management A/S, Frisko Sol Is, Ginge Brand & Elektronik A/S, Grundfos International A/S, Haldor Topsøe A/S, Hellerup Bank A/S, Henriques Bank Aktieselskab, A/S, Amagerhøjskolen, A/S Miro Atomizer, Norsk Hydro Danmark s.s., Nykredit, Price Waterhouse, Privatbanken A/S, Skandinavisk Tobakskompagni, Statsanstalten for Livsforsikring, The Jutland Technological Institute, Aktieselskabet Varde Bank.**

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**WORLD ECONOMIC INDICATORS**  
every Monday—Only in the Financial Times



## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

**Continued on Page 31**







# FINANCIAL TIMES

## WORLD STOCK MARKETS

### WALL STREET

## Pre-holiday caution takes hold

THE LATEST federal data on the U.S. economy helped to keep stock prices firm on Wall Street yesterday although investors remained cautious ahead of tomorrow's July 4 holiday, writes Terry Byland in New York.

Bond prices also moved up despite continued technical demand for overnight federal funds, which kept the rate well above recent levels.

At 3pm the Dow Jones industrial average was down 0.45 at 1,336.89.

Opinions on the progress of the U.S. economy continued to vary widely. Bonds gained half a point on reports that Mr Beryl Sprinkel, a top White House aide, had disclosed that the Administration is trimming its earlier forecast of 3.9 per cent economic growth this year.

Later, the Commerce Department announced gains of 2.1 per cent in factory orders and 9.7 per cent in single family home sales in May - both above Wall Street expectations, and apparently indicating a rebounding economy.

Stock portfolio managers are now poised for the flow of corporate results for the second quarter of the year, due soon.

While the manufacturing and agribusiness industries are expected to show a continued slowdown, some other sectors are back in investment favour.

Bank stocks did well, on expectations

that second-quarter earnings would reflect the fall in the bank's funding costs in recent weeks. Bankers Trust jumped 1 1/4 to \$72 1/2, Chase Manhattan 1 1/4 to \$62 and Citicorp 3/4 to \$50 1/4.

The hints of a tougher U.S. line in the Middle East following the hostage crisis brought further gains in defence stocks. General Dynamics gained 1 1/4 to \$77, Lockheed 3/4 to \$53 1/4 and McDonnell Douglas 1/2 to \$78 1/4.

Stock in Exxon rallied after the board said it would appeal against the court ruling on oil price charges which could cost the oil company \$2bn. The rest of the oil sector was mixed, with Atlantic Richfield 3/4 down at \$59 1/4 and Standard Oil of Ohio, the British Petroleum offshoot, unchanged at \$46 1/4.

Chemical stocks too were firmer. Monsanto added 3/4 to \$49, Dow Chemical 3/4 to \$35 1/4 and Du Pont 3/4 to \$59 1/4. But pharmaceuticals looked irregular as the dollar swayed on the foreign exchange markets. Merck edged up 3/4 to \$113 1/4.

AT&T continued to drift down, shedding another 3/4 to \$24 as Wall Street weighed the implications of IBM's threat to the telephone market. At \$125 1/4, IBM gained 3/4 while MCI Communications held steady at \$10 1/4.

Honeywell slipped 3/4 to \$61 1/4, but Digital Equipment, number two to IBM in data processing, jumped 1 1/4 to \$96. Sperry, still looking for another bidder, added 3/4 to \$53 1/4 after a block of 500,000 shares was traded at \$52 1/4.

Despite expectations that the industry will later this week disclose poor sales figures for June, General Motors gained 3/4 to \$73 1/4 and Ford 3/4 to \$46. American Motors at \$34 added 3/4.

Hospital Corporation of America shed 3/4 to \$48 1/4, with Justice Department clearance for the merger with American Hospital Supply (AHS) rendered ac-

ademic in view of Baxter Travenol's bid for AHS. Baxter dipped 3/4 to \$15 1/4 while American Hospital Supply added 3/4 to \$40 1/4 in heavy trading while awaiting the next move in the bid game.

Retail and consumer stocks eased back, with some of the recent takeover favourites losing ground. Borden fell 1 1/4 to \$44 1/4, but other losses were modest. General Foods at \$79 1/4 shed 3/4, and Quaker Oats, another takeover stock, dipped 3/4 to \$52 1/4.

Credit market rates were erratic, behind federal funds trading around 8 per cent, at which level the Fed tried to smooth the pre-holiday cash flows with overnight system repurchases. The funds edged up to 8 1/4 per cent despite the Fed's intervention.

Cash moved into Treasury bills ahead of the weekend. Bond prices moved up after a dull start but were not heavily traded.

### LONDON

## GEC turns off attempt to recover

ANOTHER recovery attempt by London equities faltered an hour before the official close following disclosure of GEC's preliminary statement.

The group's annual profits, although improved, were mildly disappointing and came as an anti-climax to an electrical sector desperately seeking good tidings.

Sentiment throughout the equity market was affected, and the FT Ordinary index surrendered much of an early 8-point gain to close a net 1.8 up at 954.3. GEC managed to finish steady at 162p, but Racal shed 6p to 132p and Thorn EMI dipped 7p to 360p.

The late announcement of changes to capital gains tax treatment of gifts and qualifying corporate bonds enlivened the government securities market. Index-linked issues rallied by up to 1/4 while low coupon conventional gilts also attracted revived attention.

Chief price changes, Page 31; Details, Page 30; Share information service, Pages 28-29

### AUSTRALIA

THE RETREAT in bullion prices did not adversely affect Sydney trading, that took the All Ordinaries index 0.3 higher to 860.5.

Local investors, however, remained hesitant about the outcome of the Government-backed summit in Canberra to alter the tax law while the forthcoming federal budget continued to add to the unease.

Among resource issues, BHP fell 6 cents to AS\$26. CSR moved 1 cent higher to AS\$2.86 and CRA dropped 4 cents to AS\$3.94.

In golds, Central Northerman lost 20 cents to AS\$7.10, GMR 30 cents to AS\$8.10 and Poseidon 20 cents to AS\$3.15.

### SOUTH AFRICA

FURTHER GROUND was surrendered by Johannesburg gold shares as the bullion price weakened.

An end to strikes at Gencor mines failed to reverse the mood, and most mining issues finished cheaper. Val Reef took one of the sharpest falls - R6 to R169 - while more modest setbacks were recorded by Buffels, 50 cents down at R70.50, and Free State Geduld, R2 off at R46.50.

Gencor led mining financials lower with a 40-cent drop to R29.80 and Anglo American Corporation eased 15 cents to R28.10. Industrial leader Barlow Rand continued to weaken with a further loss of 30 cents to R11.30.

### HONG KONG

STRONG institutional buying of blue chips and short covering brought Hong Kong trading back to life with a 20.73 point gain in the Hang Seng index to 1,561.33.

Property issues featured, with Cheung Kong 20 cents up at HK\$16.80, Hongkong and Kowloon Wharf 10 cents higher at HK\$6.15 although Hongkong Land was unchanged at HK\$5.65.

Other leading shares to finish with gains were Hongkong Bank 5 cents ahead at HK\$7.80, Hongkong Electric 10 cents firmer at HK\$8.30 and Jardine Matheson 20 cents up at HK\$11.40.

### SINGAPORE

PERSISTENT selling pressure drove Singapore shares lower for the third consecutive day and took the Straits Times industrial index 8.07 down to 787.20.

Sigma, most actively traded, held steady at S\$2.23 as UOB, also active, shed 6 cents to S\$3.82. Elsewhere, Fraser & Neave dipped 15 cents to S\$5.05, Genting weakened 10 cents to S\$5.80 and Pan Electric dipped 3 cents to S\$2.22. Hotels, properties and commodities also lost ground.

### CANADA

INDUSTRIALS and financials found isolated support in thin Toronto trading. Moore Corporation traded CS\$14 higher to CS\$28, while Canadian Pacific gained CS\$3 to CS\$18 and Domtar at CS\$18 was CS\$4 firmer. Royal Trustco led the financials with a CS\$1 rise to CS\$21 1/4 and Royal Bank edged CS\$4 up to CS\$30 1/4.

Banks, industrials and utilities advanced in Montreal.

### EUROPE

## International buying gives inspiration

FOREIGN buying provided the inspiration for a resurgence of domestic demand on several European bourses yesterday, triggering an acceleration in share price increases.

Wall Street's overnight climb to a new peak, coupled with renewed hope of lower domestic interest rates, were again the factors behind the advance.

Swiss and Dutch interest centred on banking and financial issues, which overflew into other sectors to nudge leading indices to records, while Frankfurt experienced a broad-based revival.

The Commerzbank index added 11.1 to 1,432.8, marginally below the record high set last week.

International investor interest was particularly marked among banking and car issues while chemicals were also keenly sought.

Commerzbank was the most actively traded bank, firming DM 2.70 to DM 220.50, followed by Dresdner, up DM 2.50 to DM 258.50, and Deutsche Bank, 50 pig higher at DM 580.

VW registered the largest gain among the car makers, adding DM 11 to DM 333.50, while BMW rose DM 3.50 to DM 442 and Daimler DM 7.50 to DM 859.

Among chemical stocks, BASF ended at DM 220.90, up DM 1.90, Bayer firmed DM 1 to DM 227.80 and Hoechst was 30 pig higher at DM 227.50. Engineering stocks returned to favour, led by a DM 5 advance for Mannesmann to DM 196, while KHD added DM 6 to DM 273. MAN moved against the trend to end down DM 6 at DM 171.

By contrast trading on the bond market was quiet with prices moves small. The Bundesbank sold DM 41.6m of domestic paper compared with DM 82m on Monday.

U.S. investors were at the fore of a strong rally in Amsterdam, which pushed the ANP-CBS General index to its second consecutive record with a rise of 2.0 to 217.1.

Among banks ABN and NMB both reached record levels with the former gaining FI 6 to FI 468 and the latter 2.50 to FI 198. Benefiting also from hopes of further cuts in domestic interest rates, insurer Amey firmed FI 2.10 to FI 249.30, and Aegon and Nat-Ned each rose FI 1.10 to FI 98.40 and FI 71.30, respectively.

Publishers were also in heavy demand for the second day with VNU up FI 3.50 to FI 205.50 and Elsevier 90 cents to FI 125.80, while copier maker Océ van der

Grinten moved to a 1985 high with a FI 3 advance to FI 329.

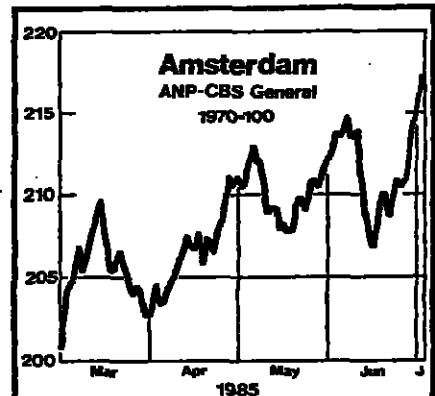
Engineering group Holec featured again with a FI 9 surge to FI 234 on expectations that the company will benefit significantly from higher public spending.

Bonds remained dull as traders awaited a lead from the release of economic indicators from the U.S.

Zurich marched forward largely under the direction of foreign buyers, who expressed their conviction that the U.S. dollar will continue to fall against the Swiss franc through large buying orders which boosted volume to near record levels.

The Swiss Bank industrial index was carried to another record, adding 3.0 to 449.3, while indices covering metals, chemicals, banks and insurance stocks also touched peak levels.

The three leading banks hit record price levels, with the Union Bank up SwFr 100 to SwFr 4,290, Crédit Suisse



SwFr 50 to SwFr 3,000 and Swiss Bank SwFr 10 to SwFr 472.

In insurance stocks, participation certificates continued to rise on active trading. Balaise added SwFr 125 to SwFr 2,000, while Swiss Re was up SwFr 50 at SwFr 2,080.

Paris was sheltered from the activity seen in other markets by the absence of international interest and hesitation among local traders while the market finds a new direction.

The construction sector stood out with several leading groups posting solid gains. Bouygues was particularly sought following news that the company will participate in several aspects of the construction of the cross-Channel link. The company's shares added FFr 17 to FFr 828.

Milan advanced as foreign buyers also entered to lift turnover.

Fiat was off of line with the rest of the market and closed down L30 at L3,750, although after close trading pushed it forward as encouraging comments from the board filtered into the market.

Madrid made ground in light trading, while Stockholm was again quiet, and the Veckans Affärer index slipped 2.2 to 455.1.

### TOKYO

## Private investors dominate

PRIVATE investors injected buying interest into otherwise dull trading in Tokyo yesterday, writes Shigeo Nishiwaki of Jiji Press.

Corporate and institutional investors remained on the sidelines awaiting fresh incentives.

The Nikkei-Dow market average rose sharply above its recent record high at one point but closed 5.28 points down at 12,913.75. Volume remained thin at 368m shares from the previous day's 345m. Losses outnumbered advances by 411 to 381, with 144 issues unchanged.

Some car makers and components groups attracted buyers as the market was stirred by reports that Toyota Motor will build a factory in the U.S. to produce 200,000 medium-sized cars annually. Car component stocks benefited from expectations of increased exports to the U.S.

Prominent among these was Topy Industries, Japan's largest wheel maker, which gained Y2 to Y302 on volume of 6.63m shares, the third most active stock. NOK firmed Y15 to Y563, Kayaba Industry Y2 to Y339 and Nippondenso Y40 to Y1,350.

Mazda Motor put on Y4 to Y470, but Toyota Motor remained unchanged at Y1,270.

In the absence of fresh incentives, some non-ferrous metals climbed on speculative buying. Sumitomo Metal Mining topped the active list with 10.29m shares and gained Y50 to Y2,030, surpassing the record high reached the previous day. Furukawa also climbed Y28 to Y458.

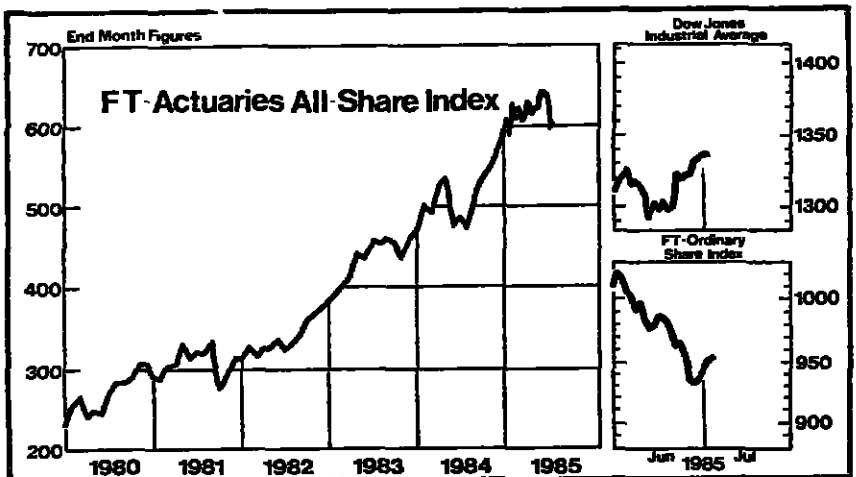
Elsewhere, Tokyo Sanyo Electric, strongly competitive in the field of refrigeration appliances, came second on the active list with 8.60m shares and rose Y7 to Y726.

Mitsubishi Heavy Industries eased Y2 to Y320 and Nippon Steel Y2 to Y150. Speculative buying pushed Nippon Denko Y50 to Y1,580 on volume of 6.01m shares, the fourth most active. Asahi Chemical moved erratically in speculative buying and closed Y8 down at Y910.

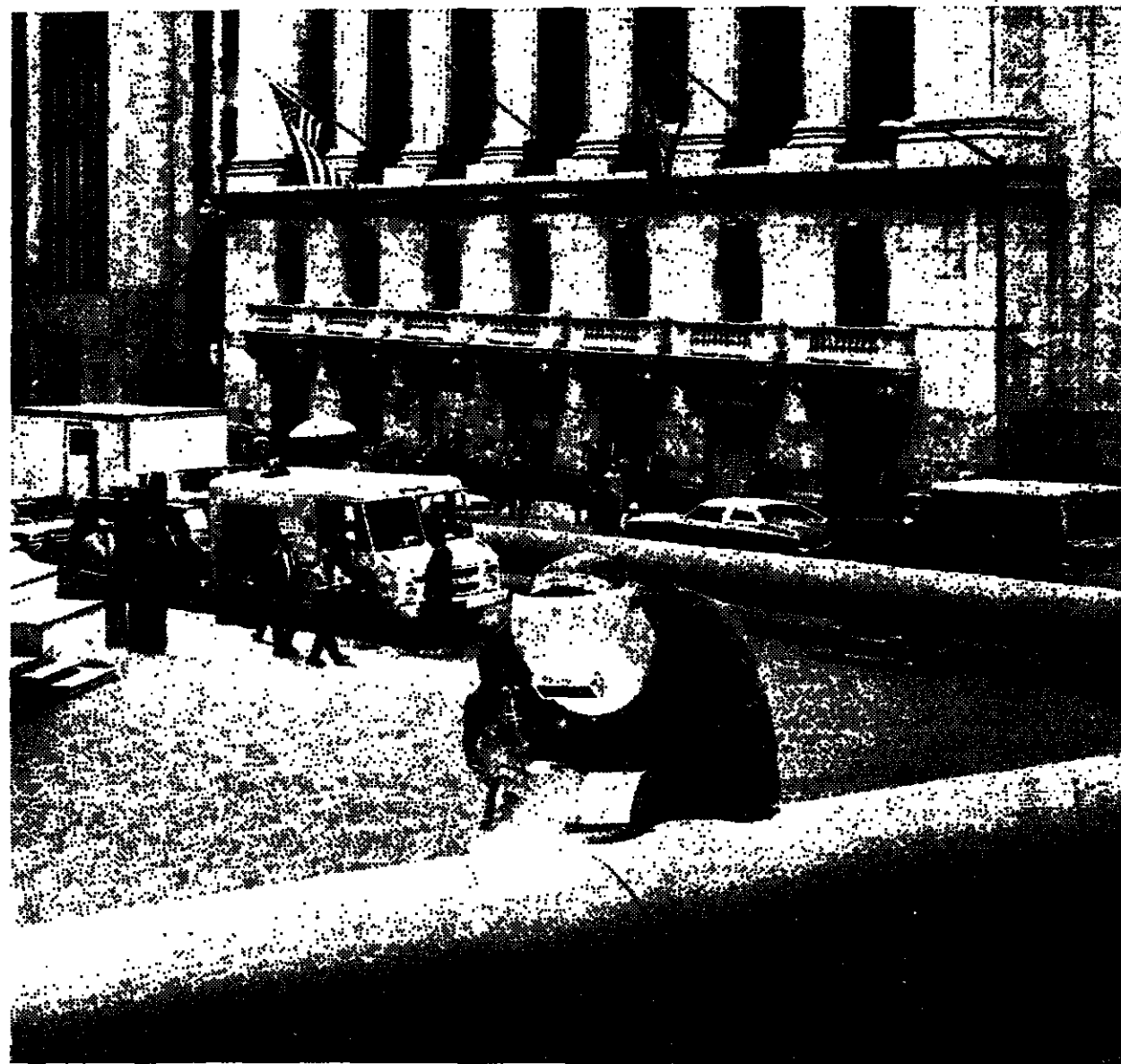
The bond market was relatively active, experiencing a bout of profit-taking by large financial institutions such as securities houses, city banks and trust banks, but firming on a broad front.

The yield on the benchmark 7.3 per cent government bond due in December 1993 fell below the previous day's record low of 6.410 per cent to 6.390 per cent.

### MARKET MONITORS



STOCK MARKET INDICES				
	July 2	Previous	Year ago	
<b>NEW YORK</b>				
DJ Industrials	1,336.89	1,337.14	1,130.08	
DJ Transport	675.68	672.64	472.22	
DJ Utilities	165.42	165.37	124.47	
S&P Composite	192.20	192.43	153.20	
<b>LONDON</b>				
FT Ord	954.3	952.5	821.3	
FT-SE 100	1,250.8	1,246.8	1,047.6	
FT-A All-share	604.24	600.52	491.87	
FT-A 500	659.85	656.48	534.58	
FT Gold mines	406.9	420.8	606.3	
FT-A Long gilt	10.56	10.55	10.99	
<b>TOKYO</b>				
Nikkei-Dow	12,913.75	12,919.03	10,410.9	
Tokyo SE	1,028.20	1,028.90	793.25	
<b>AUSTRALIA</b>				
All Ord.	860.5	860.2	656.0	
Metals & Mins.	505.3	502.8	422.4	
<b>AUSTRIA</b>				
Credit Aktien	102.62	102.59	63.89	
<b>BELOW</b>				
Belgian SE	2,321.77	2,321.03	—	
<b>CANADA</b>				
Toronto				
Metals & Mins	1,895.4	1,896.5	1,862.0	
Composite	2,719.1	2,703.6	2,220.6	
Montreal				
Portfolio	133.07	131.75	108.27	
<b>DENMARK</b>				
SE	n/a	198.48	181.46	
<b>FRANCE</b>				
CAC Gen	224.7	224.3	170.0	
Ind. Tendence	127.6	127.4	90.25	
<b>WEST GERMANY</b>				
FAZ-Aktien	485.09	480.79	347.18	
Commerzbank	1,432.6	1,421.5	1,022.2	
<b>HONG KONG</b>				
Hang Seng	1,591.33	1,570.60	868.63	
<b>ITALY</b>				
Banca Com.	334.93	331.50	208.41	
<b>NETHERLANDS</b>				
ANP-CBS Gen	217.1	215.0	157.0	
ANP-CBS Ind	181.3	179.4	126.4	
<b>NORWAY</b>				
Oslo SE	325.76	327.20	227.69	
<b>SINGAPORE</b>				
Straits Times	787.20	775.27	894.64	
<b>SOUTH AFRICA</b>				
JSE Golds	—	966.3	952.7	
JSE Industrials	—	977.9	636.3	
<b>SPAIN</b>				
Madrid SE	108.28	107.62	86.50	
<b>SWEDEN</b>				
J & P	1,321.82	1,330.68	1,493.62	
<b>SWITZERLAND</b>				
Swiss Bank Ind	449.9	447.8	361.3	
<b>WORLD</b>				
Capital Int'l	216.1	215.4	174.9	
<b>GOLD (per ounce)</b>				
London	330.00	331.25		
Zurich	330.85	331.00		
Paris (fixing)	331.83	331.45		
London (Aug)	331.50	331.25		
New York (Aug)	331.40	331.80		



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For a copy of TransCanada PipeLines' 1984 annual report write to Mr. Gary Lloyd, Director - Investor Relations, P.O. Box 54, Commerce Court West, Toronto, Canada, M5L 1C2.

**TransCanada PipeLines**



## FINANCIAL TIMES SURVEY

A time of unprecedented economic and political change faces Hong Kong as it begins its 12-year adjustment to the end of British colonial rule and its re-absorption by China

## A territory in transition

By David Dodwell

WHEN THE Chinese national flag rises over Hong Kong's government offices in the first week of July 1997, the intention is that people will treat this as any other day and get on with business as usual. Certainly the British colony's government will spend the next 12 years creating an impression of untroubled continuity in the handing back of sovereignty to the mainland.

In reality, however, the 5.5m people of Hong Kong face a time of unprecedented change. The strength and importance of the territory has sprung in recent years from its physical attachment to, but independence from, China. Questions remain whether this vibrancy will be retained once Hong Kong is reabsorbed by the mainland.

Economic and commercial links between Hong Kong and the mainland are developing at an astonishing rate. This is partly due to the consequences of Peking's policy of "opening up to the outside world," and partly to the readiness of local businessmen to exploit new opportunities on the mainland.

There is growing confidence that this policy will not be thrown into reverse. But it is a brave person who dismisses the possibility of further political and economic upheaval on the mainland. If present policies

remain intact, Hong Kong stands to gain substantially, albeit as a service and entrepot centre rather than as a manufacturing base.

If policies change, Hong Kong has economic upsides ahead. Some locals have, therefore, been more concerned to have assurances about the character of the government in Peking up to and after 1997 than they have about assurances about Hong Kong.

China's main concern has seemed to be to inherit Hong Kong as an efficient money-making machine. While the pre-occupation of Hong Kong people with earning money is almost apocryphal, there are an increasing number, particularly among the young and well educated, who also want clearer assurances about the quality of life and civil liberties. These may be a long time coming.

Under the Sino-British Agreement ratified in Peking this May after three years of secret negotiation, China promised Hong Kong "a high degree of autonomy." Under the untested theory of "one country, two systems," Hong Kong will remain a liberal, free-wheeling capitalist enclave alongside socialist, puritan, bureaucratic China—insulated by a 14ft fence and the promise that local people will rule Hong Kong.

The agreement is "magnificent," according to Professor Peter Hogg at Hong Kong University. "But is it politics?" "Where are the banana skins? Politics is a hard business and there are no political realities



Toasting a new relationship: Chinese Premier Zhao Ziyang and British Prime Minister Margaret Thatcher

Hugh Routledge

in it. It is so idealistic, one almost feels like comparing it to the Ten Commandments.

Given the possibility of substantial skippage between the letter of the agreement and the spirit of its application in 12 years, Britain's colonial government (and a large number of local Chinese) have set about leaving as little as they can to chance.

Political reforms aim to dilute the power of government officials and appointees in the territory's highest decision-making bodies—the Executive and Legislative Councils. In September, members of the Legislative Council will be

elected for the first time—albeit indirectly by an electoral college of district board members, and by functional constituencies, a political deformity which it is hoped will be short-lived.

A review of political reforms is planned in 1987 when the Government may feel brave enough to propose direct elections. Sir David Akers-Jones, the territory's new Chief Secretary, said: "No one is making hard and fast decisions about 1993."

China has offered Hong Kong self rule but probably not democracy in any conventional sense. Peking has kept its own

counsel on the proposed reforms, which explains the turgidity of government officials drafting them.

It may also explain the skirmishes that have coloured the recent political scene. Officials wary of encouraging "adversarial politics" have tried to define the limits of political activism. Those holding political power by virtue of patronage from the Governor have made sometimes naive efforts to carve future niches, while pressure groups have attacked threats to civil liberties.

There have been disputes over elimination of juries for the hearing of complex commercial crimes and over the Powers and Privileges Bill intended to give legal immunities to the Legislative Council. Even the scheme to charge road users by computer every time they enter certain congested areas has been seen as threatening personal privacy.

The disputes have been unusual because the Government's sophisticated methods for measuring public opinion seem to have gone awry, while pressure groups have shown a heightened awareness of civil liberties. It is no accident that the parties involved are groping blindly towards a political

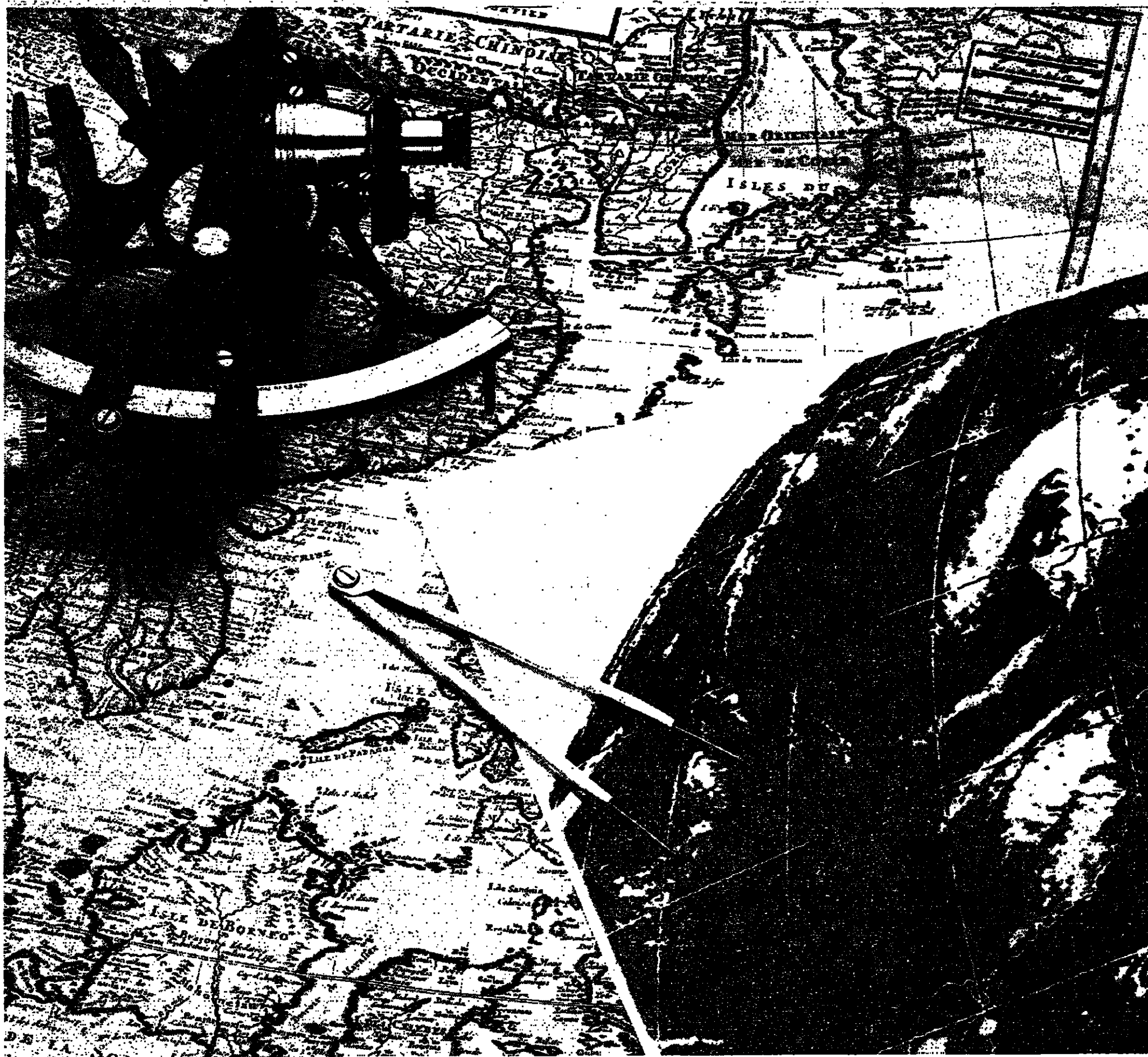
framework tolerable to China and to Hong Kong people.

China has made gestures aimed at fostering confidence. The Basic Law Drafting Committee, which will sit for five years drawing up Hong Kong's post-1997 constitution, includes 23 local people out of a total membership of 59. These are not Peking stooges, including pillars of the Hong Kong establishment like Sir Yue-Kong Fao and Li Kashing, vice-chancellors of Hong Kong's two universities, the Anglican Bishop of Hong Kong, and

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## Hong Kong 2

## A 12-year period of transition

CONTINUED FROM PAGE ONE

president of the Buddhist Association.

In contrast, Peking was obdurate over British proposals to include Hong Kong Chinese on the Joint Liaison Group, which will oversee the transition to 1997. Some still see an iron fist beneath the silk glove.

There are signs that Hong Kong may be a hard place for Peking to handle, in part because it is a sophisticated and affluent society being absorbed into what is still a rural peasant economy.

There are signs of a sense of belonging among Hong Kong people. After more than a decade of relative stability this traditionally refugee community has begun to put down roots. About 60 per cent of the population was born in Hong Kong and identifies strongly with it. How Peking will respond if this comes into conflict with calls for overriding loyalty to the motherland is uncertain.

Many also have a strong sense of goodwill towards China, which has prompted them to take Peking at its word in a year during which many promises have been made. Much business being done in China reaps negligible profits and is based more on patriotic than commercial logic.

This has left many in the small but significant expatriate group in the territory's civil service feeling out in the cold. Recruitment of expatriates for pensionable jobs has come to a halt, and no more than 70 will still be in service in 1997. The Taipans of the late 19th century acknowledged that the Chinese were vital to the community, but if they chose to work in a Crown colony should be prepared to put up with inconveniences to preserve the well-being of expatriates. To what extent will the tables be turned after 1997?



Sir John Brembridge: "Hong Kong still exposed"

Change has already brought down one of the pillars of Hong Kong's laissez-faire philosophy. There is a sad irony that the ideals of "positive non-interventionism" sculpted by Sir Philip Haddon-Cave, should be under assault just as he retires as Chief Secretary after almost three decades in the territory.

The recent scandal-ridden collapse of the Overseas Trust Bank has underscored the need for closer supervision of the banking sector, and may add impetus for better regulation of the securities industry. Hong Kong is not headed in the direction of Singapore, but the territory may prove a less attractive haven in the years up to 1997, to the capital of uncertain origin that has played such an important part in past growth.

Tremors following the collapse of OTB sit uncomfortably with the fact that 1985 is the Chinese Year of the Ox—a year of hard work, resilience, stability, peace and prosperity. It is therefore notable that the Bank of China stepped in to help restore calm.

It is improbable that the bank has any great faith in such superstition, but in this instance, the interests of the soothsayers and the Chinese authorities coincide. The Year of the Ox may therefore live up to its reputation.

AFTER THREE of the most turbulent years in Hong Kong's 143-year history, by the time of this year's April Budget the colony appeared to have found calmer waters.

The effects of the 1982 property market collapse had begun to work their way out of most company balance sheets. Political alarms around the final difficult stages of Sino-British negotiation over Hong Kong's future, which had kept the local currency and stock markets in a state of shock, had been quietened.

Strong growth in the U.S. economy, and the opening up of China had provided impetus for striking economic growth.

But the past two months have reminded anyone rash enough to be complacent just how hectic Hong Kong's economic climate can be. Protectionist moves in the U.S. have put a share of the colony's garment exports in jeopardy, while demand for electronic products has stagnated.

Most recently, the scandal-ridden collapse of the Overseas Trust Bank, one of Hong Kong's leading local banks, has highlighted continuing weaknesses in the economy and taken the wind out of the Stock Market's sails.

These developments may prove a valuable sobering effect in the territory after a remarkable period of economic growth in 1984 when the gross domestic product increased by 9.6 per cent in real terms and exports rose by 17 per cent. Exports to China soared by 60 per cent, inflation fell to about 8 per cent, and real incomes rose by 11 per cent.

These were all in an economy boasting full employment.

But Sir John Brembridge, Hong Kong's financial secretary, struck a warning note in April's Budget debate when he told legislative councillors: "We live

in an uncertain world which savagely penalises dogmatism.

"The prospects for sustained economic growth in 1985 largely depend on whether the economic conditions prevailing in our main markets continue to improve; on the maintenance of the competitiveness of domestic exports; on the extent to which Hong Kong's products have freedom of access to these markets; and on the productive capacity of the economy."

He worries that visible trade accounts for more than 160 per cent of gross domestic product. Strong demand from the U.S. last year only served to increase the territory's dependence on its leading market, which now accounts for 44 per cent of exports.

"Hong Kong is still very exposed to external forces over which we can have no control," Sir John said.

This is one reason why his projections for 1985 are cautious. Exports are forecast to grow by 11 per cent, and the gross domestic product by a below-average 7 per cent. Maintaining tight control of public spending, he forecasts a budget deficit this year of HK\$1bn, and a return, for the first time in four years, to a balanced budget next year.

## Trade

There are signals that he may achieve a balanced budget this year. But after getting his budget sums wrong by several billion dollars in the wake of the property market collapse, he is not planning to leap to early conclusions.

Uncertainty is likely to remain a common denominator of Hong Kong's economic life, but the reasons are changing. As 1997 approaches and Hong Kong's absorption into China becomes more imminent, so the Chinese economy will play an increasingly powerful role in

Uncertainty is likely to remain a dominant factor as the territory's economy comes more under the influence of mainland China. Meanwhile, a new political system is evolving



influencing the economic future.

Trade between Hong Kong and China has rocketed in five years. Less widely appreciated is the extent to which mainland Chinese institutions have invested in local manufacturing—estimated at more than HK\$2bn—and fostered Hong Kong investment in mainland ventures.

One potent but indirect signal of this trend is that since early 1982 Hong Kong has been a net debtor to Chinese banks. Over all net indebtedness has risen to \$13.8bn in that time, and swing in China's favour by more than HK\$20bn since the first quarter of 1981.

The possibility of political turbulence inside China in the years ahead, which would clearly hurt Hong Kong, cannot be ruled out. But China is doing much to foster stability and economic prosperity in the territory.

This has been demonstrated by the Bank of China's decisions to bail out Conic Investments,

a leading electronics group, to rescue a major loss-making cement manufacturer, and to provide credit lines to banks troubled in the wake of the collapse of OTB.

The Bank of China has also played a part in the Government's maintenance of currency stability. The link with the U.S. dollar, introduced after a serious run on the Hong Kong dollar in September 1983, held firm in spite of political upsets last summer.

The price of this policy has been extreme volatility in interest rates and one of the world's strongest currencies, which has not been welcome to local exporters. The defence, fiercely defended over the past year, does not appear about to fail. But the Government has signalled that economic performance over the year ahead will depend heavily on movements in the value of the U.S. dollar.

A break in the link cannot be ruled out, but is only likely if the U.S. dollar falls suddenly or steeply.

Sir John Brembridge's reluctance to pay any savage penalty for over-attachment to dogma has led to a new look at issues that would once have been unquestionable.

The first sacred cow to undergo examination is Hong Kong's no questions' regulatory system. Tighter supervision of the territory's security and banking industries is inevitable in the wake of corporate and banking scandals.

## Taxation

The failure of OTB, with bad debts that could amount to HK\$4bn, prompted Sir John to say: "Freedom has its price. We must ask whether we are paying too high a price."

Questions have also been raised over low taxation because of:

● A series of large budget deficits in the wake of the 1982 property collapse, the aim of a balanced budget means that government spending has to be cut or taxation increased. With

public sector spending likely to account for a mere 16 per cent of gross domestic product this year after severe cost-cutting exercises, the Government has said public spending has already been trimmed to the bone.

● A steep and permanent decline in earnings from the sale of land leases. The Government acknowledges that substantial earnings from this source in the early 1980s were extraordinary in any case. The establishment of a land commission, made up of Chinese and British officials to regulate land sales and set aside half the proceeds for Hong Kong's post-1997 government means that this will never again be a significant source of revenue.

● Pressure to increase welfare spending, partly because Peking would like to see the "unacceptable face of capitalism" receive attention before 1997, and partly because a gap is emerging between Hong Kong's disadvantaged and the middle class.

Private affluence and public squalor should not co-exist," Sir John said in April's Budget debate, reflecting a sentiment that Peking would endorse.

In spite of this trend, the Government says it remains wedded to low taxation.

"Hong Kong is not a tax haven, but we know that moderation in taxation is an essential spur to individual effort," the Financial Secretary said in February this year.

After the upsets of the past three years, Hong Kong is perhaps a steadier and more mature place. Sir John Brembridge is among those who acknowledge that this has to be a good thing, but it is likely to make Hong Kong a duller place in which to live and work.

"It is the barricades that have made life here so interesting," he says.

David Dodwell

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## Shadow political parties developing by stealth

THE DEVELOPMENT of democratic institutions in emergent nations can be tumultuous, accompanied by much turmoil. This is not so in Hong Kong.

One difference between the colony and, say, Zimbabwe in 1980 is that while the latter was lurching towards a statehood, Hong Kong is set to become a capitalist adjunct of China. Not only the standard of living, but the political destination is different.

In Hong Kong they are starting the political process in reverse of the normal order. Local Chinese are already well represented at every level of the administration under the patrician figure of the Governor. They have direct access to power and influence and are in some ways well placed to step into the shoes of the colonial authority. They also, crucially, control most of the economy.

Only now, however, with the handover date of 1997 hurtling towards them, are they having to worry about on whose behalf their power should be wielded and with what authority.

A common denominator for many Hong Kong people is love of money. If there is a Confucian equivalent to mammon then someone in Hong Kong probably discovered it.

So what does the Society stand for? The popular belief is that it is strong on law and order and its leader does not deny this. What else, though? "I don't believe in the 'free lunch,'" she says, echoing a widespread distaste for a number of welfare state benefits, particularly unemployment benefits. "Nor do blue-collar and white-collar workers." In a full employment society this is small wonder.

"I am convinced you can have a capitalist society that works, providing the rich are involved. If the rich concentrate solely on making money and leave government to the less rich, there is a danger of a swing towards Socialism."

Miss Tam's backers are mostly rich and a lot of money has been lavished on her efforts. Even so, there are ordinary supporters, too, as clearly demonstrated in the district elections. These are the people who aspire to wealth; certainly they believe in the power of money for good.

Across the harbour, but at a similar point along the political spectrum, Mr Allen Lee, a prominent Hong Kong industrialist in his 40s, helps lead a rival grouping of the privileged that has yet to give itself a name.

He and other members of the colony's Chinese elite, including the redoubtable Mrs Selina Chow, a fellow member of the Legislative Council, have yet to work out exactly what they stand for. There are, though, several pointers.

"We are preparing a feasibility study on politics," Mr Lee says. "And we are putting the economy first. Economics and politics should go hand in hand, but it is the economy which is vital."

"The system that has made Hong Kong what it is today must be maintained. It is the creation of wealth, not its distribution that will be our first priority. Before anything else,



Maria Tam: "I don't believe in the free lunch" Allen Lee: "We are putting the economy first"

nate Hong Kong after 1997.

"I am setting up a policy structure," she insists. "I am not going for the tape. The one to run the last 100 metres (and become Hong Kong's first post-colonial chief executive) is not yet known," she says, echoing a widespread distaste for a number of welfare state benefits, particularly unemployment benefits. "Nor do blue-collar and white-collar workers." In a full employment society this is small wonder.

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"The system that has made Hong Kong what it is today must be maintained. It is the creation of wealth, not its distribution that will be our first priority. Before anything else,

"we are businessmen." The Lee group, which intends opening its doors to every level of society—is studying the constitutions and manifestos of British and U.S. political parties, "trying to find out what they stand for." It is also going through the list of members of the district councils to find out who appears to share its beliefs.

None of this is an easy business. "A strong party would need at least 20,000 members—some would say 200,000," says Mr Lee. "But the people of Hong Kong are not that interested, and getting them to examine the claims of different parties could prove quite a problem."

Involving the people is also the aim of Dr L. K. Ding, a 65-year-old veteran of Hong Kong's political by-ways and co-founder of the Association for Democracy and Justice. Dr Ding is a committed Christian and would most probably be seen in Europe as a Social Democrat.

He remembers the Cultural Revolution and believes it is essential for Hong Kong to organise in such a way that it does not cause offence to China.

Dr Ding is one of a number of pressure group leaders in Hong Kong whose expressed concern is for the welfare of the people.

Most of all, though, he is concerned about the maintenance of freedom within a society whose destiny is being shaped elsewhere.

Miss Tam is also aware of the limitations imposed on developments in Hong Kong by the authority of China. For the moment, she is concentrating on problems closer to home.

Various other putative parties are arising. Elections to the district councils will be followed in September by those for the Legislative Council, so time for organisation is short.

No one group is likely to emerge triumphant in September. The election is indirect, and calls in part on functional constituencies representing different industrial and professional classes which are now forming the political parties. It should be possible after the ballot boxes are closed to see how the opinion makers are forming their own opinions.

Walter Ellis



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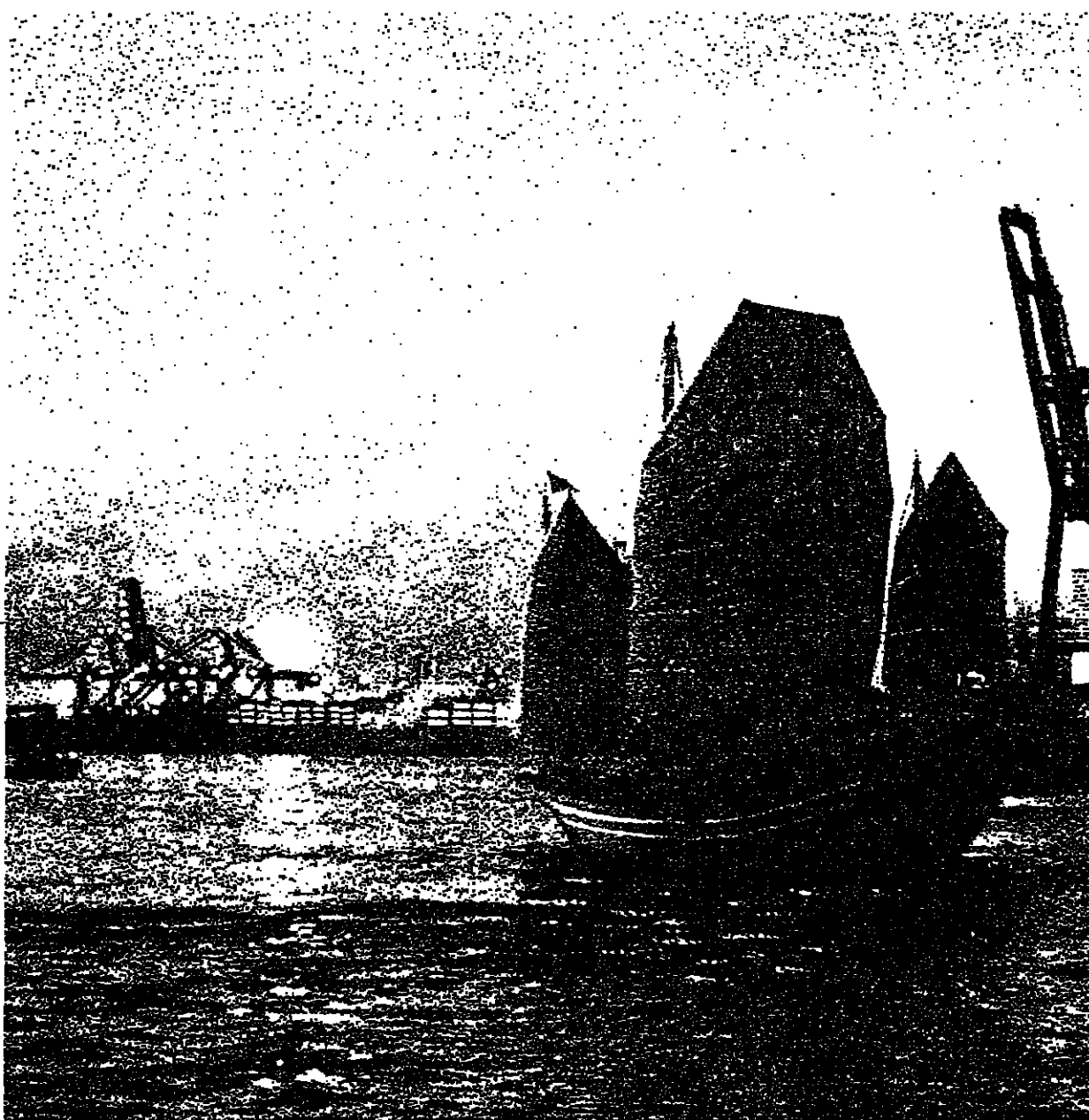
### Retailing & trading

Meanwhile, many Hong Kong consumers wanted an alternative to traditional family stores and street markets. Hutchison's A.S. Watson Division was positioned to accommodate. The Park'n Shop supermarket chain is now the largest in Hong Kong. Watson's retail chain (chemist and personal products) is also the largest of its kind with 30 outlets.

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We're more than just managing in Hong Kong



## Hong Kong 4

## Overhung by complex of emotion

## Trade

LARRY KLINGER

ON THE opening page of Talpan, James Clavell's popular novel based on the history of Hong Kong, an American businessman, waiting to witness Queen Victoria's representative take formal possession of the territory, expresses the sentiment that the future of the China trade is here, for better or worse.

This draws a sharp retort from a fellow China trader: "Hong Kong's got no future."

Today, nearly 150 years later, as Britain prepares to hand back its colony to China, Hong Kong's trading position is again overhung by a complex of emotion.

● For the immediate term, there is the business community's widespread optimism based on proven success in being able to adapt quickly to changing conditions.

● For the short term, however, there is deep concern on how to cope with a still-lagging world economy and, especially, with growing protectionist sentiment in the U.S.

● For the long term, there is a controlled anxiety, in some cases tinged with fear, over what the future could hold as time marches towards the 1997 handover to China.

Meanwhile, the China trade is booming. Hong Kong is taking once again its traditional role as a thriving entrepot, for the mainland without having to lessen its manufacturing industry, created out of economic necessity when the China trade was cut by the Korean war in the 1950s.

In the seven years since Peking launched its outward-looking modernisation policy, China has become Hong Kong's second most important market for domestic exports, after the

U.S., leaping from 15th place in 1978, when it reappeared in the top 25.

Hong Kong's domestic exports to China last year were worth more than HK\$11bn (compared with 0.7 per cent of that in 1978) and are expected to increase this year by 50 per cent in value terms. First-quarter growth this year was 97 per cent over the same period in 1984.

Hong Kong's re-emergence as entrepot for the mainland is even more striking, straining the territory's port and spurring expansion plans for container facilities. These should soon put the port ahead of New York and behind only Rotterdam in turnover.

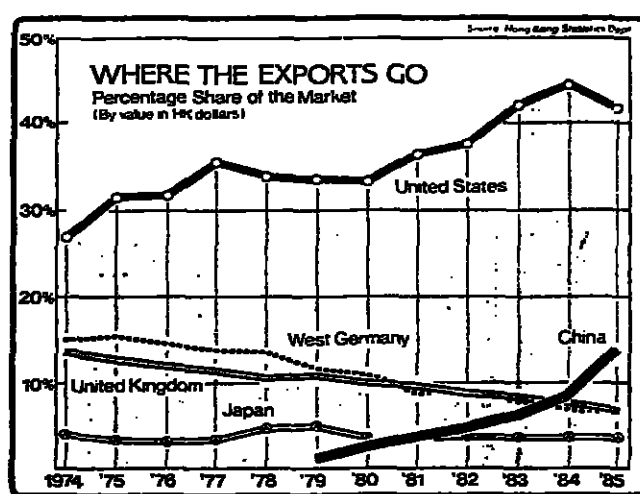
The territory's re-export of Chinese goods showed nearly an eight-fold growth over the past seven years and reached more than HK\$28bn in 1984. This year's first-quarter re-exports were nearly 150 per cent greater in value compared with the period a year earlier. About 50 per cent of the territory's imports from China are being re-exported compared with only about 35 per cent in 1978.

**High-tech**

Re-exports to China, following a decline during the mainland's political upheavals in the early 1970s, have also shown almost continuous growth to more than HK\$28bn last year. This represents an average growth of 125 per cent during the past seven years.

However, this booming trade remains subject to the Chinese Government's policy, or possibly even political whim, in its handling of what remains a centrally-controlled market.

Already Peking appears to be clamping down on money supply and on the flow of foreign exchange for goods other than high-tech materials needed for industrial modernisation. Hong Kong government and business circles are unable to forecast what this policy, which they be-



lieve is still not completely formed, will bring.

Meanwhile, the Hong Kong Government is sticking by its forecasts. "We have more than a 50-50 chance of meeting our export expectations this year to China of between 50 and 40 per cent growth in real terms," one government economist said.

More worrying, in the short to medium term is the trading position with the territory's Western partners, particularly in the mainstay textile and electronics industries.

Hong Kong businessmen are quick to say that with the world's eyes focused on developments in China, it is increasingly overlooked that the territory's trade is still dominated by the U.S., which takes more than 40 per cent of Hong Kong's own exports. U.S. trade, combined with that of West Germany (nearly 8 per cent), Britain (7.5 per cent), Canada and Australia (both with more than 3 per cent), represents more than two-thirds of the markets. This puts China's 7 per cent in a different perspective.

Hong Kong has weathered better than most the world economic downturn, with export growth on a year-to-year basis averaging around 25 per cent over five years. But the Government's survey of the economy at the end of last month produced some disturbing figures. Domestic exports fell by 1 per cent (nominal) in the first quarter compared with the period a year earlier, while those for the U.S. fell in real terms by 6 per cent, for West Germany by 20 per cent, Britain by 13 per cent, and Japan by 3 per cent.

There were some signs of a slowdown in manufacturing, with greater retention of imports of raw materials and semi-manufactures. The slower growth rate in the U.S. economy was cited as a main factor.

It is the U.S. that is causing most worry. In addition to slower economic recovery, protectionist sentiment is growing and the market for Hong Kong's exports of office machines and data processing equipment (off 38 per cent in the first quarter)

and sound recording and reproducing equipment (off 23 per cent) may be reaching saturation point.

Hong Kong received a shock last autumn when, in the run-up to the U.S. presidential election, the Reagan administration bowed to long-resisted pressure from the U.S. textile industry and allowed a revision of the rules of origin on knitwear. This banned import of high-earning Hong Kong products whose basic components were manually produced in China.

The Hong Kong industry responded by placing orders for an estimated HK\$200m of knitting machinery from Japan and Europe. The alternative, was the loss of business worth up to HK\$2bn.

"We can get over this problem if it remains an isolated one," said Mr Kenneth Fann, director of Fang Brothers Knitting. "The trouble is that we know support is building in Washington for greater protectionism, which could roll back trading rules to the early 1970s and make a nonsense of GATT."

"There doesn't seem to be an immediate threat from the EEC, but what if they get the same idea as the Americans?"

In the electronics industry the problem is that the slowing down in the recovery of U.S. consumer spending power has coincided with saturation in the market and a tightening of technical specifications on imports.

Hong Kong is responding by developing sales to China for its existing products, which, the Americans think of as old but the Chinese find new. Advanced products are also being developed for the U.S. with accessories providing new functions.

"The saturation of the U.S. market, which takes 90 per cent of Hong Kong's electronics industry has not been what you would call healthy this year," said Mr Vincent Ng, senior executive for research and development at Elec Etek.

"I would not say the situation is bleak. The industry



The trading position remains solid. Unwelcome pressures in the West have been offset by China's growth. But anxieties abound. Will protectionism grow, and what else will the future hold as 1997 approaches?



## Trade with China

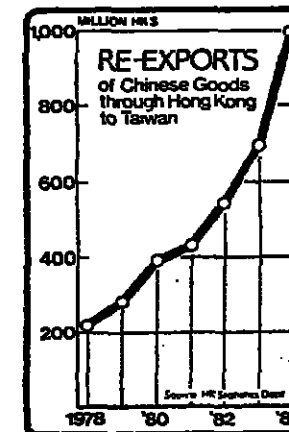
	1983	1984	1985*
Exports	6.2	11.3	3.9
Re-exports	12.1	28.1	11.8
Imports	12.8	30	12.1
Total	61.2	69.1	27.8
Balance	-24.4	-16.4	3.6

\* First quarter against the same period in 1984. Rounded figures do not necessarily total.

## Trade with Taiwan

	1983	1984	1985*
Exports	1.3	1.6	0.2
Re-exports	3.5	4.9	0.6
Imports	12.5	17.4	3.9
Total	17.2	23.8	4.7
Balance	-7.7	-10.5	-2.2

\* Jan-Feb. against the same two months in 1984. Source: Hong Kong Statistics Department



## A pragmatic approach to mainland trade

## Taiwan

LARRY KLINGER

HONG KONG'S nearest neighbour of any significance other than China is the island-state of Taiwan, about 110 miles from the mainland.

It is little more than an hour away by leisurely jetliner, but politically the distance can be measured in light-years. Economic relations between these two Chinese-speaking compatriots in capitalism are burgeoning but for the most part shrouded in secrecy.

Taiwan's rulers, directly descended from the leadership that fled the mainland communist revolution in the late 1940s, still maintain they are the only legal government of all China. They, therefore, consider direct contact with the mainland as aid to the enemy. They seem prepared, however, to turn a blind eye to Taiwan's rapidly increasing trade with the mainland, most of which passes through Hong Kong.

The evidence of officials and diplomats in Hong Kong and Taipei is that Taiwan is prepared to sacrifice a little dignity because it would be foolish to disrupt a lucrative trade which it could do little to cut off even if it wanted.

The exact amount of trade is unknown, given that Taiwan industry is banned from trading with China. But Hong Kong is Taiwan's third largest market (after the U.S. and Japan). Official Hong Kong statistics show exports were worth HK\$17.4bn last year, an increase of nearly 40 per cent on 1983.

Hong Kong officials estimate that up to 60 per cent of this finds its way to the mainland, which would put Taiwan's indirect exports to China last year at about US\$1.3bn. Many experts believe the real figure to be much higher, and one Taiwan-based international banker concerned with trade puts indirect exports through Japan and Singapore as well as Hong Kong, at about US\$2bn.

Contrary to general belief, there are official statistics relating to the China-Taiwan

trade. The Hong Kong Statistics Department has published figures spelling out re-exports of Chinese-origin goods through Hong Kong by major destinations which show that this trade to Taiwan for 1984, amounted to nearly HK\$1bn, an increase on the previous year of 3.6 per cent.

This trade will continue, too. Mr Chao Yao-Tung, chairman of the Council for Economic Planning and Development, the Taiwan Government economic advisory body, points out that Taiwan is fighting for its economic survival, and could not therefore cut off its trade with Hong Kong because of the Sino-British agreement on the transfer of sovereignty to the mainland.

Taiwan could not say "yes" to direct trade, but had to realise, too, that it could not stop indirect trade through other countries. Hong Kong was the key port in the region, not least because of the business intelligence there, he said.

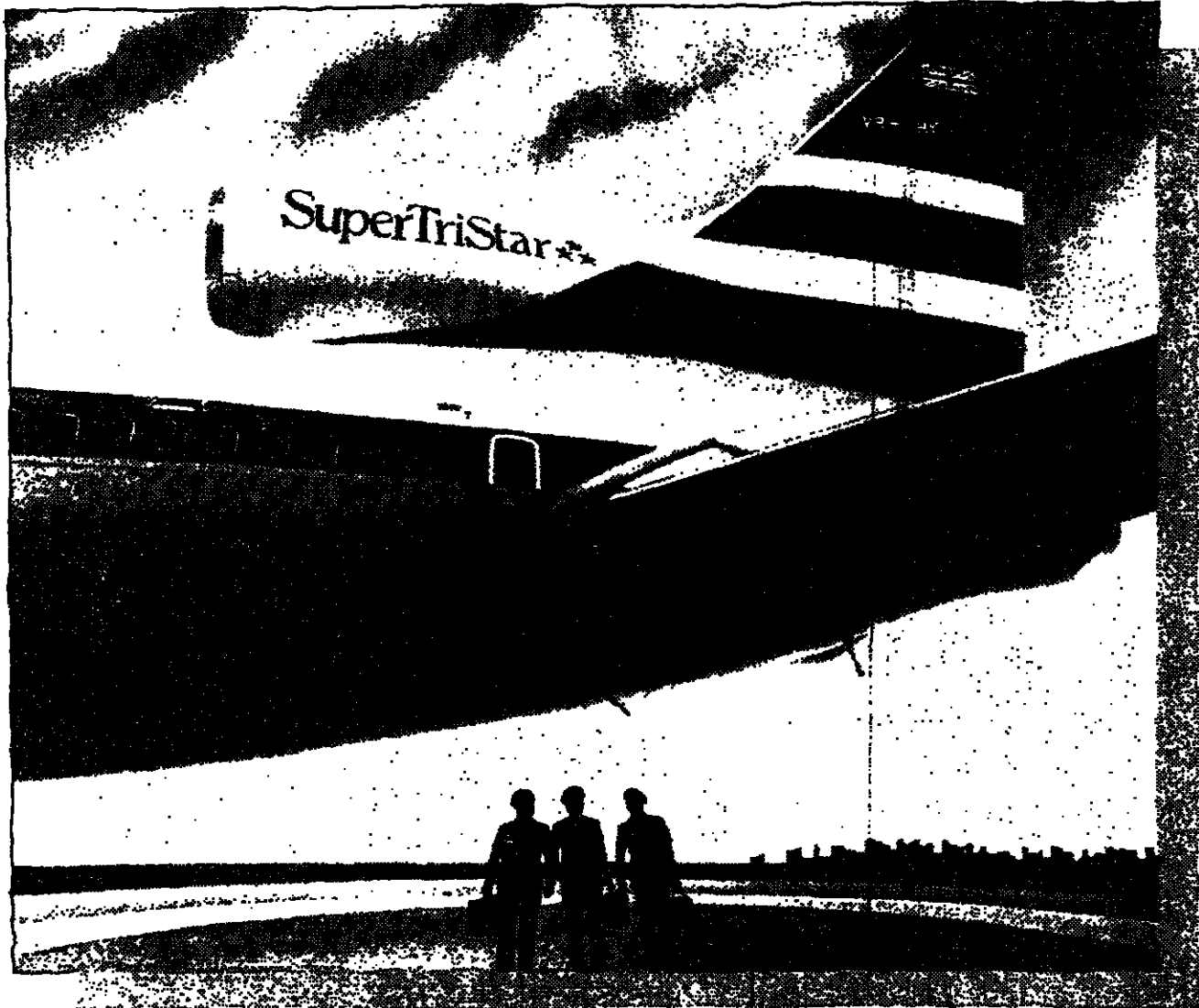
They believe that, in any case, the number of hard-core activists with allegiance to the Taiwan Government has dwindled in the colony to about 2,000. There have been no serious incidents allegedly inspired from Taipei since the riots of 1955.

"The situation seems the reverse of what we might have feared," one British official said. "As the extensive economic links build up between Taiwan and the mainland, Taipei seems increasingly willing to turn a blind eye even to unofficial diplomatic activity when Hong Kong can prove useful."

Nevertheless, it is not forgotten that ultimate power in Taiwan is still held by men implacably opposed to the Communist government on the mainland and that a stronger reaction can be expected if China were seen to interfere in Hong Kong's affairs beyond what has been agreed.

Between now and the 1997 hand-over of sovereignty there will also have to be some adroit juxtaposition of policies for the Taiwan Government to maintain its outposts, refusal to recognise the agreement, while quietly accepting it as the best that could be achieved in its interests.

Recent events suggest this is possible. Only a few weeks ago Fujian Province, China's closest to Taiwan, passed a motion permitting direct trade with Taiwan. Central government encouraged trade with what it regards as the mainland's "province" of Taiwan, but Fujian gave this added legal force.



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# Puzzling problems of looking outwards

Mainland  
LARRY KLINGER

CHINA'S DECISION seven years ago to adopt an outward looking policy as a means of modernising its economy was bound to increase its interaction with free-wheeling capitalist Hong Kong. The phenomenal growth in two-way trade that has taken place and the revival of Hong Kong as an entrepôt for the mainland is one result. At the same time some of the consequences have been less favourable and in some instances puzzling.

On the macro-economic level, the great leap forward in trade resulted in China having to come to grips with such issues as foreign currency policy. In other areas the two systems have remained apart.

**Clampdown**

For instance, Hong Kong's free-market position and the pegging of its currency to the U.S. dollar means that its inflation rate is almost entirely generated externally, while China's still relatively closed economy means that inflation remains largely domestic.

However, the door was also opened to some on-the-ground experiments that have produced surprising results. For example, the long-standing system of supplying mainland vegetables to Hong Kong received a jolt after China adopted a new system that allows profitable

trade by individuals in produce states after state quotas have been met. China has also leased some farming plots to Hong-kongers in the mainland's special economic zones adjacent to the colony.

Vegetable imports from China have long been solid business, already worth HK\$234m 10 years ago and more than HK\$1bn last year, but the result of the new policy has been a flood of cheap vegetables seeking foreign exchange on the Hong Kong market, and disruption of established trading patterns on both sides of the frontier.

The established Hong Kong traders complained to their mainland counterparts, who, sympathetic because of the slump in their own business, made representations to the authorities.

The experimental farming scheme had become so fruitful that the farmers were branching out to the export of quota-excess produce from the interior, to the obvious benefit of the Hong Kong consumer and, ironically, in line with the territory's cherished free-market policy.

The upshot was a clampdown by the Chinese authorities, who imposed export controls on the parallel trading. The clamping reason was the Government's distaste for the growing quantities of foreign exchange which were passing through unofficial channels and well above the official exchange rate. There also were strong suspicions that the enterprising mainland-based Hongkongers were not so

much farmers as unofficial exchange dealers profiting on the black market.

According to officials in Hong Kong, a similar situation, from the territory, existed for a while in the Chinese export trade for textile raw materials such as cotton yarn and fabrics, a business worth about HK\$13bn last year. Here, too, the Chinese authorities brought in measures in an attempt to ensure there was little parallel trading.

There is also some mystery over what is really going on in the frontier special zones for export industry, set up with foreign investment and high-technology provided from abroad.

## Preferential

While no statistics are available, evidence collected by government departments in Hong Kong suggest that they may have become primarily entrepôts for the import of consumer durables such as television receivers, refrigerators, personal computers and motor-cycles, with the result that they are running big deficits on trade. The suggestion is that these goods are finding their way into the interior, being processed, if not exactly duty-free, on preferential terms.



Air cargo forms an important part of the colony's trade.

It is puzzling to Hong Kong observers how the zones can continue to finance major infrastructure projects such as local authority buildings, roads, and water and drainage systems, given that their export business to date seems less than impressive. The conclusion in Hong Kong is that they are receiving sizeable funds from elsewhere in China.

While there is no doubt as yet that China's aim remains to develop exports with local manufacture, it appears increasingly to experts in Hong Kong that these zones are, at least for the time being, becoming trading places with the involvement of central government.

# Ancestral loyalties feed China

Hong Kong plays a unique role in assisting the motherland in publicising and pursuing its policy of openness. It can serve the motherland in obtaining the economic information of the world and absorbing the experiences of management, capital, technology and professionals.

Xu Jiatun,  
Director of New China News Agency, Hong Kong

walls in the main street are bedecked in posters detailing donations from families overseas. Macao has no more than 3,000 households, but the poster lists are much longer.

In nearby Shunde County, officials say donations from Hong Kong amounting to HK\$150m have met one-tenth of the total infrastructure investment over the past year.

In Foshan, the fast-growing industrial satellite of Canton, officials say that 70,000 jobs—one-third of the total—depend on ventures involving "economic co-operation" with patriots overseas, again mainly in Hong Kong.

Even in Anhui Province, almost 1,000 miles north of Hong Kong and deep in China's interior, seven out of the 10 joint-equity ventures agreed last year were with Hong Kong partners.

In Shenzhen, neighbouring Hong Kong, where Mr Li has made his new home, Hong Kong investors account for an estimated 80 per cent

of investments, totalling US\$800m.

Officials in Peking have recently estimated Hong Kong and Macao businessmen have set up more than 700 equity ventures over the past five years—about 80 per cent of the number nationwide, and accounting for almost 60 per cent of the US\$1.4bn invested in the ventures.

All this evidence shows that China's modernisation drive would probably have been stillborn without the patriotic—and often uncommercial—economic stimulus from Hong Kong.

Mr Li, like many, was willing to take a risk. He had reached retirement age, his sons had settled in the U.S.; his printing company in Hong Kong was facing intense competition when costs were rising; and investment in new, sophisticated machinery was needed.

Shenzhen was offering start-up incentives. In a 50:50 joint equity venture with the Shenzhen Petrochemical

Engineering Corporation, HK\$25m has been invested. He has provided advanced machinery, skilled workers and technological know-how. His partners have built the plant, provided local workers, and cover local currency investment costs.

The target is for an annual turnover of HK\$34m a year, generating profits of more than HK\$7m, with 60 per cent of the books printed being exported using marketing links Mr Li has built over a lifetime. He is not allowed to market or distribute inside China, but expects domestic orders to account for 40 per cent of output.

He has had his share of headaches. Electricity supplies are erratic—25 every-where in Guangdong province. Most frustrating in a venture that depends heavily for its export success on overseas marketing, a telex has still to be installed, and direct-dial telephone calls reach only Hong Kong.

"We have had some difficulties in achieving our production targets," Mr Li says. "But in the future, when local workers are more skilled, we will be much more competitive."

The message is probably echoed by the thousands of other Hong Kong businessmen who are waning mainland joint ventures out of their infancy.

David Dodwell

# Fast-emerging traders keep their secrets

Enterprises  
LARRY KLINGER

THE EXACT way in which the mainland trading enterprises being set up in Hong Kong operate is far from clear: they are being established, however, by the dozen.

The Hong Kong General Chamber of Commerce has compiled an official list of about 100 and believes on a reading of advertisements and notices in the local Chinese press, that more than 40 others have been formed in the last three months.

Even the New China News Agency, which has long been China's unofficial but effective diplomatic presence in the territory, has not been able to compile a consolidated list. Things are happening too fast.

Many smaller companies are being established, too, by Hong Kong people—probably with strong and possibly influential family connections on the mainland—in the hope of getting part of the action in the booming two-way trade.

The trend is hardly surprising, given the amount of trade passing through China's newly opened door, Hong Kong's lack of restriction on foreign investment and the freedom it offers to form a company for a HK\$125 registration fee and with almost no questions asked.

Mainland-sponsored enterprises shun publicity at this stage. They are unsure, firstly, how far good Communists can go in operating as capitalists under China's new so-called "responsibility system." Under this, after certain stipulated commitments to the state have been fulfilled, normal business can be transacted to ensure company self-sufficiency and possibly profit.

## Orders

They are also uncertain through lack of commercial experience and of close contact with foreign businessmen, how to conduct business in free-wheeling Hong Kong. "The Chinese concept of 'face' is certainly involved."

Nevertheless, the lack of information surrounding the new concerns has generated suggestions in rumour-rife Hong Kong that they are "infiltrating" Hong Kong's commercial life ahead of the territory's reversion to Chinese sovereignty in 1997, though this is being discounted by business organisations and government officials.

Most of the larger enterprises established over the past couple of years are tied to either mainland provinces or one of the new special economic zones. Their executives, along with the majority are still civil servants from these areas. The main thrust of their business is to obtain high-technology and industrial materials, at the best quality and the best price for organisations in the areas they represent.

After receiving requests from the mainland, they prefer to make their own contacts for possible orders, but they do

not discourage unsolicited approaches from potential suppliers.

In addition to their main trading functions, which include handling export and import of consumer goods, they offer consultancy and other services ranging from how to organise banking, cargo, documentation and transport, on both sides of the frontier, to the obtaining of visas. Most have staff who speak English.

There is obvious potential for these new enterprises to operate as agents for foreign companies, but this type of business does not appear actively sought.

However, the way in which the companies are financed, operate in detail, apply charges or take profits remains a mystery. Even the Hong Kong authorities are in the dark in spite of efforts to find out.

"They don't explain their operations fully even to their Hong Kong personnel," says one official.

## Materials

Some idea can be gained, however, from the example of Shum Yip Holdings, which agreed to an interview on the recommendation of a leading Chinese newspaper editor and after the intervention of the Hong Kong General Chamber of Commerce.

Shum Yip, which set up about 18 months ago to represent the Shenzhen special economic zone, resides in smart offices in Kowloon's Tsim Sha Tsui East district. Its main business is to obtain for Shenzhen such things as construction materials, chemical products, computers, cars and motorcycles. Its turnover for 1984, in terms of the value of imports to Shenzhen, was between HK\$600m and HK\$700m.

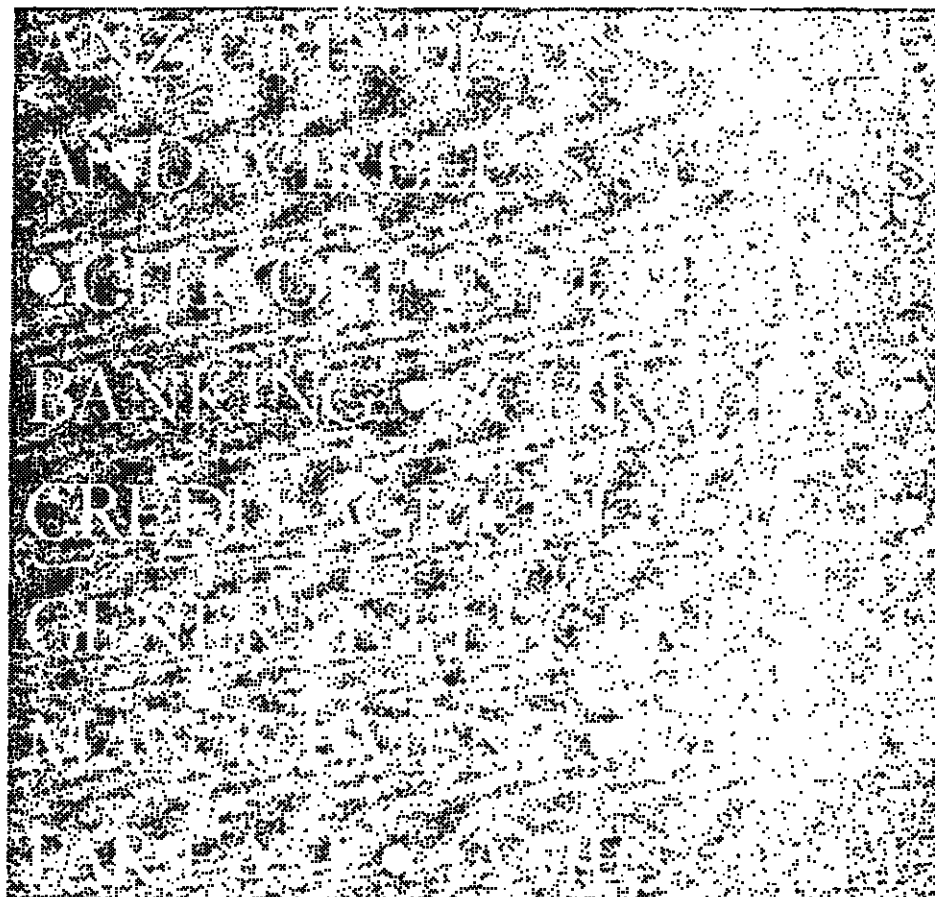
Shum Yip claims business is good and improving. While the company would not discuss "profits," it says it operates within the new responsibility system—unsubsidised and self-sufficient. This includes payment of operating costs, including salaries.

Competition from the other new trading companies—there are 10 connected with Shenzhen alone—is not a problem, the company says, because there is plenty of business. Its main problem was being a newcomer lacking experience in dealing with foreign companies.

Shum Yip is increasingly dealing in consumer goods, but industrial products remain in the majority. Because of its good communications and the know-how it had acquired by being established in Hong Kong, the company was receiving an increasing number of inquiries from further into the mainland interior where interest was being shown in imports. There were still problems of foreign exchange, however, and difficulties in obtaining the necessary import licences.

Shum Yip recently gave considerable assistance to another Shenzhen company for the import of cars in return for payment.

\* Hong Kong General Chamber of Commerce, United Centre, 22nd Floor, 85 Queensway, Hong Kong, GPO Box 852.



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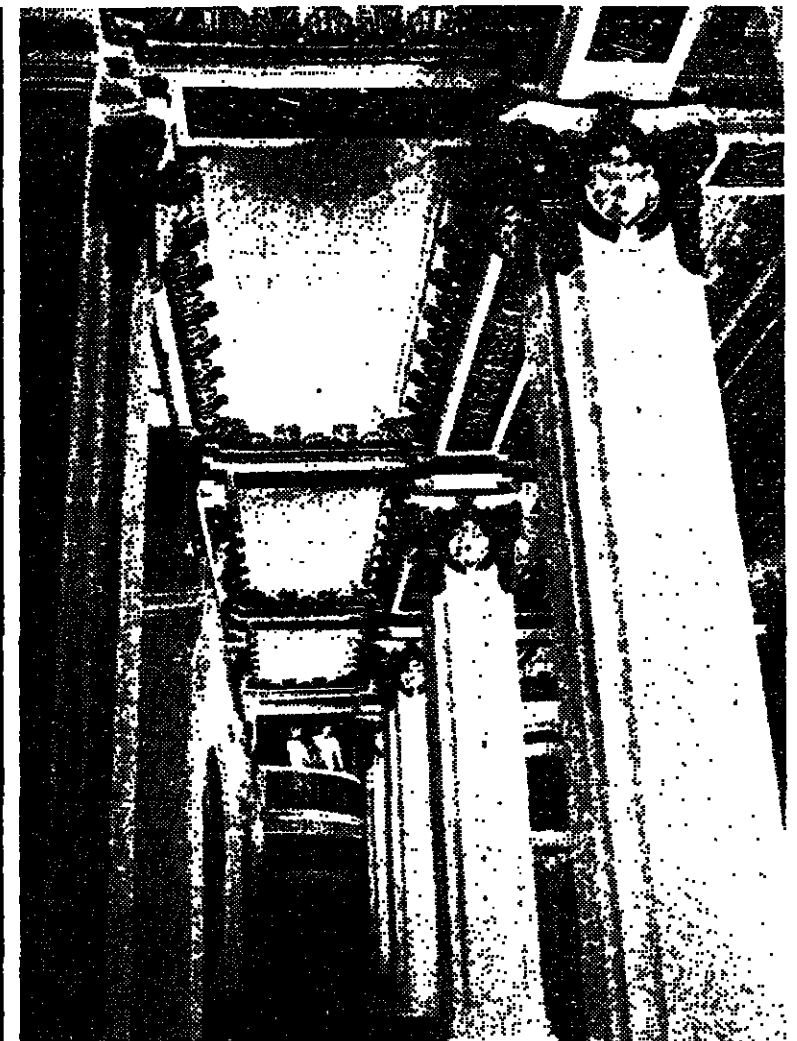
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## A game with Chinese rules

IN JOHN le Carré's spy novels the grizzled veterans of the Cold War play by "Moscow Rules." Smiley's People and their Soviet counterparts are ruthless but certain accepted procedures are observed. It seems to be a means of controlling the chaos. In the real world of Hong Kong, China Rules govern the pace and pattern of the game. No-one has a copy of these rules, but everyone knows how to play.

In 1983, Li Hong Chang, a leading luminary of the decrepit Manchu empire, put his name to the so-called Unequal Treaties by which China signed away a number of its ports and surrounding areas to the European powers. Britain got Kowloon.

The 19th century had been one long hunt for China but the unequal treaties seemed to sum it up. Nothing has been forgotten. Deng Xiaoping, the current Chinese leader, has said he is not going to go down in history as a second Li, and the evolution of China Rules has been his means of ensuring Hong Kong proceeds in one direction only.

In practice this means the Sino-British agreement is essentially a Chinese document to which Britain has given its acquiescence. One commentator, aware of the extent of the pressure applied by China, said: "The population of Hong Kong should not know of the skulduggery that went on during the negotiations. Cabinet papers in London will keep this hidden for 30 years, and that's no bad thing."

Britain does not feel angry about this. It recognises the reality of the situation and feels it has done what it can to secure a decent future for the people of Hong Kong.

"It should be remembered that the link with Britain is already extremely tenuous," the same commentator said. "Hong Kong has virtual autonomy."

"On paper, we are a colonial dictatorship of the worst kind. But the system doesn't work like that. By custom and convention, the people who matter have their say."

China was slotted into this delicate network of administration even before the Cultural Revolution of the 1960s. But it was the Maoist riots in the colony which demonstrated that the writing was on the wall for British rule. From

### Sino-British Relations

WALTER ELLIS

China is willing to learn as well as force the pace. Nor are the local Chinese mere puppets. Without their entrepreneurial genius, the takeover in 1997 would be a nationalist affair, of no economic consequence.

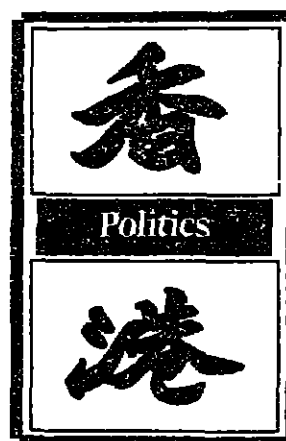
Mr Ji Shaoxing, in charge of foreign affairs at the Xinhua News Agency (the pretence of being a Chinese version of Reuters is paper-thin), makes a relaxed case in favour of a smooth transition to Chinese rule.

"Hong Kong's situation is becoming better," he says. From the political point of view, most Hong Kong people, as well as many foreigners, have made up their minds to stay here.

"The Hong Kong Government, even before the declaration, had been thinking about new structures. Britain also wants things to proceed smoothly."

Some might imagine that China would wish to begin massive recruitment into the Communist Party. But Mr Ji is more concerned that local Chinese moving up through the ranks of business and administration should know on which side their bread is buttered.

On the key issue of local democracy Mr Ji is less forth-



How the Joint Liaison Group, the Basic Law Committee and the Land Commission carry out their duties is vital for the maintenance of confidence in the future of the territory

## The search for common ground

THE Sino-British Agreement on the future of Hong Kong established three bodies destined to have a profound effect on the character and administration of the territory after 1997.

● The Joint Liaison Group, made up of representatives from China and Britain, aims to ensure a smooth transition of power.

● The Basic Law Committee is charged with the drafting of a local constitution.

● The Land Commission, is invested with powers over the future ownership of Hong Kong's most valuable commodity, the land itself.

Argument over the composition and authority of the three has overshadowed the "political" debate. Hong Kong is not used to politics, but it recognises power when it sees it and associates it with appointed institutions. Thus, while there is no rush to join the various "societies" that seem destined to grow into political parties over the next year or so, there has been intense local interest in the Big Three new bodies.

Peking is equally aware of the significance of the groups it helped establish. It sees them as the main instruments which will take Hong Kong out of its colonial status and into its future as a special administrative region of China. Thus, Peking was guarded about their composition and, in the case of the key Joint Liaison Group, angered local opinion by insisting on the letter of the law in relation to who was eligible.

Any belief by the indigenous population that Hong Kong is a third party in decision-making has been stamped out. China has been straining to accept taking Hong Kong as anything other than a constituent part of the nation, accepting this only because of economic advantage. It will not be told, however, that Hong Kong, as a nest of dissidents, can dictate the form of its reabsorption.

When the Hong Kong lobby began pressing for representatives on the Joint Liaison Group, China refused.

However, Mr Eric Ho, the Hong Kong secretary for Trade and Industry and one of the most prominent Chinese in the territory, was then granted British citizenship. He was thus acceptable to Peking and joined the "British" team.

He will be fighting for his local compatriots, and the Chinese know this. But face has been saved.

The Joint Liaison Group will operate close to the heart of Hong Kong government. It is expected to remain until the year 2000, shaping and reshaping institutions and moulding Hong Kong into the form in which it will survive until at least 2047.

The Basic Law Drafting Committee is an even more crucial body. Chinese law derives from thousands of years of tradition adapted to Marxist-Leninism. Hong Kong takes English common law as its root. The two are scarcely compatible.

Hong Kong is anxious that it should not be dragged into support of an alien system. But it has laws are left largely alone, interpretation by mainland judges will gradually alter their character. What is not done directly could be accomplished by stealth.

Mr T. L. Tsim, of the Chinese university of Hong Kong, is one of the leading political pessimists in the colony. He says anarchy is endemic in China and that Hong Kong will be

drawn into a vortex of terror and retribution by political masters in Peking who have yet to come to power.

He plans to leave for America and urges others to follow. He is scathing of the Basic Law Committee.

"The major issue is who will have the final jurisdiction," he says. "If the basic law is seen to conflict with the Chinese Constitution then the Chinese will say Chinese law must prevail."

"If that happens, we are finished. We would be reabsorbed into Chinese culture. Capital punishment would return, along with heavy penalties affecting, say, pornography and 'indiscipline'."

"It is inevitable that Chinese values would insidiously return."

But Mr Ji Shaoxing, a top official of the Xinhua News Agency (Peking's unofficial embassy in Hong Kong), insists that China will respect the letter and the spirit of the 1987 agreement. This will apply as much to the law as to anything else, he says.

### Reforms

WALTER ELLIS

"I do not think that the Hong Kong people can integrate into mainland China. Their way of life is too different," he says. "It is not our intention to influence the Hong Kong way of life. They can maintain their way of life, their social system and customs."

To show its intentions China has permitted inclusion of 23 local Chinese among the 59 members of the Basic Law Drafting Committee. These include Sir Y. K. Fao, the shipping magnate, Miss Maria Tam, the political leader, and the president of the Buddhist Association.

The Land Commission has the problem that different systems operate on Hong Kong Island, which was intended to remain British in perpetuity, and in the New Territories, which are leasehold.

Leases in the rapidly-developing New Territories have been getting shorter and shorter as 1997 approaches, leading to instability. On the island, holders of long leases are wondering to what extent their ownership will be respected by Peking.

China does not approve of private land and property ownership, while Hong Kong does.

Mr John Todd, Director of Lands, returned recently from Peking "well satisfied" with assurances. The Land Commission has since been appointed, with three members from each side, and one Hong Kong Chinese included on the "British" team.

One of its first acts will be to decide the basis of future land auctions. Sales of government land have been suspended until the autumn pending an understanding.

How the three appointed bodies carry out their work is of vital importance for the maintenance of confidence within Hong Kong. China appears to accept this and has fulfilled its side of the bargain.

The territory's people must hope that Mr Tsim is wrong and that Peking's word is its bond.

## Realism sets in

CONTRARY to belief outside Hong Kong, there is no mass exodus from the territory in the wake of the agreement between Britain and China for transfer of sovereignty.

Nearly every resident would prefer the Governor and the Gurkhas to remain in the best of possible worlds. But the Chinese are realists in Hong Kong and Peking.

Hong Kong is not just a convenient base, but also home for a population rapidly approaching 5.5m. Local Chinese cannot see why they should leave merely because of an untoward turn of the wheel of fortune.

Many of them, or their parents, had to leave previous homes as the Communists took over on the mainland. Now there is no obvious bolt-hole to which they can flee.

They have built a vigorous society, a world economic and financial power, and they hope that China will take them as an asset instead of seeking to reduce them to penury again.

The entire colony was jittery during the early days of the Sino-British negotiations in 1983. Hundreds of thousands of inquiries were made to the U.S., Australia, Canada and the UK about the possibilities of a second flight into exile. The talks took a turn for the better, and so did the people's nerve.

The search for a last, desperate refuge is now a minority passion. Most are reconciled to the reality of power, and those who are not are for the most part bent on a final 10 years of profit-taking.

There will be departures, however, and most worrying for the future financial well-being of Hong Kong is that most who leave will be those who can afford it. A diaspora of the privileged is in prospect.

Hong Kong is largely composed of immigrants. Traditionally, immigrants are among the best of their peoples—with the courage and the will to get out and build better lives.

### Emigration

WALTER ELLIS

There is also a hard core of the wealthy and the educated in immigrant groups. Mixed with the poor and destitute of Hong Kong's early post-war arrivals was a generous sprinkling of doctors, scientists, entrepreneurs and bankers. Without them the economic miracle of the 1950s and 1960s would have been much less likely.

If the elite of today decided to take the money and run in 1997, not only will Hong Kong suffer but its usefulness to China would greatly diminish. Some flight of capital has already taken place, and there are signs that the smart money these days is concentrating on property. It is expected that Hong Kong is in for another boom lasting for at least three or four years as uncertainties over 1997 disappear and the colony settles for one more round of expansion.

Come the late 1980s the rich may begin selling out, leading to uncertainty and then to a

crash.

Peking may not allow this, however. China's property empire, Hong Kong is considerable, and the experts in Shanghai and Guangzhou may be ready to step in to take over from anyone nervous enough to leave. Equilibrium and confidence are everything for China if Hong Kong is to become the jewel in its crown.

Proven facts are few and far between. The U.S., Canada and Australia, in particular, were bombed in 1983 and 1984 with immigration applications from Hong Kong Chinese.

But a few hundred thousand at most were involved. The great bulk of the population merely looked on and fretted. If they were to go, it would be the traditional way, by sea and at night, with intended refugee status as their only claim to assistance.

A majority of those who applied to leave went through the first stages only. Inertia, and anxiety about the outside world, prevented most from continuing.

In recent years, more Hong Kong Chinese than usual have gone to work abroad. Many have stayed long enough to establish residence qualifications and then come back. But they like Hong Kong, the place they have built out of nothing, and they do not wish exchanging this solid achievement for uncertain lives elsewhere.

The mass of people are likely to stay. They have nowhere to go. And anyway, better the devil you know.

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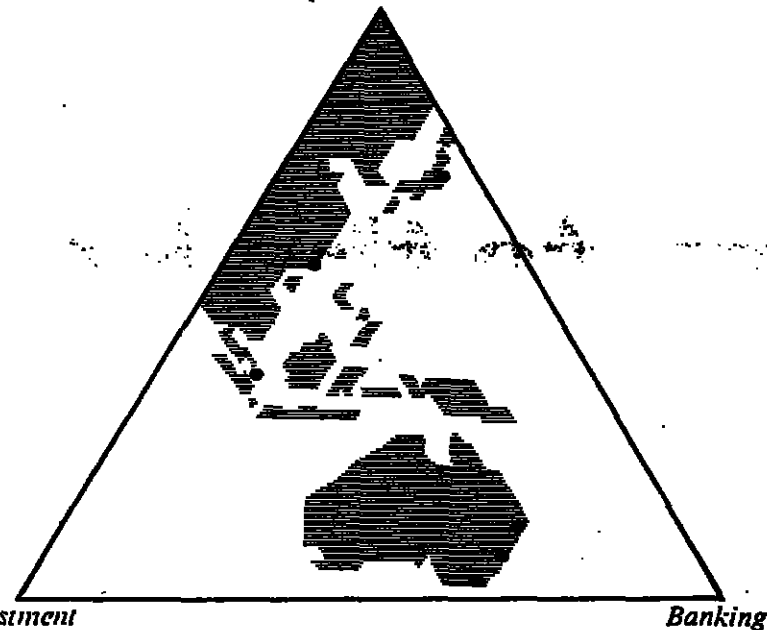
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## Why 1986 will be a busy year

### Stock Market

MARY ANN SIEGHART

IN LESS than a year, Hong Kong's stock market index, the Hang Seng, has more than doubled, despite the odd blip caused by disasters like the collapse of the Overseas Trust Bank.

Restoration of calm after Sino-British agreement over the territory's future is a cause, though the main reason may be the stirrings inside China.

"Confidence is at the root of everything," says Mr D. Z. Patel, Hongkong Bank manager of economic research.

"This confidence is not just a bubble. There are very good grounds for it, and I don't just mean the signing of a piece of paper between Britain and China."

"The major source is the radical change in China's economic policy and the business opportunities that have come to Hong Kong as a result."

Five years ago China was Hong Kong's 38th largest trading partner. It had risen to fourth place early last year, climbed to second by the year end and was top by the beginning of 1985. Part of the reason for the precipitous rise has been the slowdown in growth of the economy. Exports to China have helped to offset the U.S. shortfall.

Last year the stock market failed to reflect Hong Kong's real rate of growth of more than 9 per cent. Political uncertainty cast a pall over investment. Foreigners, and even locals, withdrew their money and the Hang Seng reached a low of 746 in the late summer.

### Confidence returns

Then the Sino-British agreement was signed and political confidence gradually returned. The agreement contained a lot more detail than expected, and the economic liberalisation in China reassured Hong Kong that the Chinese were prepared to abide by their promise to respect the financial system.

Initially there was probably more interest from abroad than from domestic investors. To foreigners the fund-raising looked good, and if an investment manager wanted a link to China—potentially the world's largest market—Hong Kong appeared the best place to go.

"They all want the China connection," explains Mr Tim Fiducia, head of James Capel's Hong Kong office.

The Hong Kong stock market has also lagged behind the rest of the world, while the U.S. and Japan looked last year as if they might have seen their best. Hong Kong seemed as if it still had a long way to go. At the beginning of this year domestic investment started to pick up, helped by a firming of property prices. Property shares make up more than half of the Hang Seng's capitalisation, and until the first quarter of this year property prices had remained stubbornly low.

Since then the recovery has been patchy, with some areas still suffering from an over-supply, but property companies' earnings and asset values should rise after dismal performance in the past three years. They will be helped by much lower interest rates and by the writing down of asset values.

Assuming corporate profits grow at about 20 per cent this year, the market stands on an average price-earnings multiple of 12 to 13 times 1985 earnings—still historically low compared with the astronomical multiples of earlier booms.

It is not just the working conditions that differ. In Hong Kong's latest banking scandal, the collapse of the Overseas Trust Bank, directors of the bank were caught trying to leave the territory with U.S.\$1.5m in a suitcase together with diamonds and securities. Mr Farrant and his colleagues were left to clear up the mess.

On the Thursday the collapse of the bank was closed. The following day the government confirmed it would take over OTB, and borrowed senior managerial staff from the Hongkong & Shanghai Bank to run it. By the Monday OTB was running again.

This says a lot for the ability of the Banking Commission to react speedily to crises. But the questions arise how such a collapse was allowed to happen, whether the commissioner's powers are stringent enough, and to what extent this sort of scandal will have knock-on effects and deter foreigners from investing.

The Government and the commission say OTB's problems arose through fraud rather than through liquidity or solvency problems. "New laws would not have helped," Mr Farrant says. "It is extremely difficult to spot these things when a management is determined to hide them."

Nonetheless, the saga supports the commissioner's claims that more regulation and

"There is time for people to make another fortune here," Mr Fiducia says.

There are still worries, underscored by the jitters that followed the collapse of Overseas Trust Bank. While the markets show few signs of the neuroses that dominated sentiment a year ago, upsets cannot be ruled out before 1987, and it will be some time before market operators drop their guard.

There is also political change to contend with, let alone the threat of protectionism from the U.S. China cannot follow the liberalisation route so fast for ever. A "great step backwards" would give the Hong Kong stock market a major wobble, as would the death of China's Deng Xiaoping.

Foreign investors may also be put off by "cowboy" standards of behaviour sometimes apparent in the Hong Kong market. There are no legal sanctions against insider trading; the worst a culprit can face is public disapproval. Rules on disclosure are also more lax than in London or New York.

Mr Derek Murphy, deputy commissioner for securities, admits that he lacks power on takeovers. "One of the problems is that we have not had the resources, and the exchange have not been vigorous enough at self-regulation."

The aim is to tighten up rules on disclosure and the capital requirements of brokers. Plans are also under way for a unified stock exchange formed of the four existing ones.

"It's better to have competition between brokers than competition between exchanges which are offering the same service. It will be easier to supervise and monitor," Mr Murphy explains.

He will have a lot of supervision and monitoring because the brokers are not happy about the move and will do their best to get around its effects.

Their displeasure is seen by the time it has taken to open the exchange. Most things in Hong Kong are finished on schedule, unless the participants are not keen for them to happen. The unified exchange—now expected to open in 1988—is several years late.

"They are going to have to change the system within months of operation because it won't work," says Mr Alan Smith, managing director of Jardine Fleming in Hong Kong. "We are all going to deal with a market which will create less liquidity than the present system."

Mr Murphy admits that he does not know whether the system will work but he has no doubts about the banks.

"The trading rules provide that all business will be done on the trading floor," he says. "If brokers flagrantly break the rules, they could be suspended."

1986 may be a busy year for him.

## Hong Kong 8



After the years of uncertainty, the 'China connection' has turned into a potent force to strengthen the territory's position as the world's third largest financial centre

## Wrangles over reforms

A NEW Hong Kong stock market and a revitalised futures exchange are due to get under way this year, capping a period of unprecedented reform in financial markets. Both hope their new structures will attract enough foreign interest to rank them with the world's major exchanges.

It has taken the Government many years to bring the Hong Kong Far East, Kuan Ngan and Kowloon stock exchanges together into one Unified Stock Exchange (USE). Even now, the process is not complete. There are still wrangles, for example, about how the USE's compensation fund will operate.

Technicians from Jardine Logica are, however, installing the computer system into the USE's trading floor, at the foot of the Central district waterfront's latest imposing addition, Exchange Centre. Installation of the system and the training of broking staff are due to be completed for a December start-up, with the official opening cautiously scheduled for February or March 1986.

The USE's trading system is designed to make use of technology while maintaining traditional face-to-face contact on the trading floor. There will still be a price board on the market floor, but contacts between brokers and price quotes will be aided by the computer. This will link brokers by telephone and record each deal done in market hours. After-market trades will be unaffected.

Membership arrangements have been restructured, and for the first time, corporate memberships will be allowed. Individual memberships will continue, but partnerships will be able to form partnerships with individuals and non-members.

In Hong Kong, as in London's City revolution, the ownership of banks has been restructured, and for the first time, corporate members will be able to form partnerships with individuals and non-members.

On the trading floor, the USE's County Bank, National Westminster, and the Bank of China will be the main players. The USE will bring banks closer to the stock market, but with safeguards.

Directors of banks and deposit-taking companies will be able to be stockbrokers. But banks which own stockbroking firms must keep premises separate so the banks are not able to develop substantial stock trading networks through their branches away from the exchange floor. Banks may have to pay a premium for USE membership.

Though the Hong Kong stock market has traditionally swung violently on the whims and fears of local small investors, it is now becoming increasingly institutional. Some 135 unit trusts, controlling \$100m of invested funds, were authorised to deal in Hong Kong as of April. Of this, 39 were based in the colony.

With one recognised exchange instead of four, the process of institutionalisation is expected to continue. There remains, however, the hangover of the Eldon and Carrion collapses, official reports on which have still to be published and perhaps contain a few more shocks.

To deal with that caution, and to speed the creation of a truly international market, the Securities Commission is considering changes to market regulations.

It is particularly concerned about concert parties—the ownership of large blocks of equity in a company by separate companies or individuals acting together. There are many such holdings held by interlocking families, and the commission aims to move towards requiring disclosure in phased stages. There could also be changes to the takeover code on the timing of announcements and on conditions attaching to offers.

A long-standing ban on short-selling stocks may be lifted to bring Hong Kong more in line with international markets. A reform of placement rules last year, designed to make it easier

for small companies to obtain listings, has done nothing to end a dearth of new issues which has lasted since before the China/UK agreement on the colony's future.

Down the road at Hutchison House, the Hong Kong Futures Exchange is patiently awaiting futures trading legislation, expected to be passed in July, which it hopes will clear the way for its emergence as an important link in round-the-world exchange business.

The HKFE was born in 1977 as the Hong Kong Commodities Exchange, but never attracted much interest in its original cotton and sugar futures contracts. It also added gold, but only soyabean have been able to obtain anything like respectable volume. Worse, it has been dogged by the failure of a large number of member firms.

Now under the energetic leadership of Mr Kim Chan, aged 38, the re-named HKFE is attempting a new financial contract.

These, it is hoped, will attract not only local investors who have shown a singular lack of interest, but also international players on futures markets. Rivalry with the Singapore International Monetary Exchange (SIMEX) is intense.

The first new contract, expected to begin in October, will be a futures contract based on the Hong Kong Stock Index, which is a volatile and somewhat unsuited to the purpose well. The HKFE's public profile could be aided by the fact that for the first time the Hang Seng Index will be calculated from minute to minute instead of only a few times a day. The HKFE will transmit the index to the USE, as well as latest prices on its own contracts.

Gold coin, currency, interest rate and freight rate futures are on the HKFE's agenda, as well as new commodity contracts in agricultural products grown in China.

The HKFE still has 153 members, and will admit banks and deposit-taking companies when the new legislation is passed. To be successfully re-launched, however, it will have to persuade participants that its strengthened surveillance and compensation fund arrangements are adequate.

## Plugging the loopholes

### Domestic Banking

MARY ANN SIEGHART

HIGH IN a slightly seedy office block above a McDonald's restaurant, a tailor and a sun-sum money changer, sits the office of Hong Kong's Commissioner for Banking, Mr Richard Farrant, seconded from the Bank of England at the invitation of the Hong Kong Government to advise on banking supervision. The contrast with Threadneedle Street must be stark.

It is not just the working conditions that differ. In Hong Kong's latest banking scandal, the collapse of the Overseas Trust Bank, directors of the bank were caught trying to leave the territory with U.S.\$1.5m in a suitcase together with diamonds and securities. Mr Farrant and his colleagues were left to clear up the mess.

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The Government and the commission say OTB's problems arose through fraud rather than through liquidity or solvency problems. "New laws would not have helped," Mr Farrant says. "It is extremely difficult to spot these things when a management is determined to hide them."

Nonetheless, the saga supports the commissioner's claims that more regulation and

supervision are needed in what is one of the freest international banking markets in the world.

That is not disputed by most of the Hong Kong banking community. Months before the OTB debacle, the Banking Commission set out proposals for tougher regulatory powers. These would include minimum liquidity and capital ratios, more frequent audits and supervision over management. The proposals, discussed, prompted by OTB's problems, is deposit insurance.

The commission has some relatively tough powers but they are very specific, allowing little room for manoeuvre. "We hope to get back into the position where we can interpret the spirit rather than the letter of the law," Mr Farrant says. "We are aware of the problems of over-regulation."

"Hong Kong is a wheel-dealing city, which gives it great strengths, but also makes it very vulnerable. We don't want to spoil the advantages of the speed of response and we know that the foreign banks come to Hong Kong because of its freedom from regulation."

### Discretion

Minimum financial ratios for the banks are proposed—in the case of capital ratios, probably 8 per cent—but the Commission would have discretion to insist that the ratio for one bank is raised to, say, 8 per cent. Directors failing to comply would be committing a criminal offence and could have their banking licence withdrawn.

Banks would also be required to provide more information frequently to the Commissioner. Assessment would also be made of management quality.

"The standard of management is none too hot," Mr Farrant says. "Most bankers agree that capital ratios are necessary, though liquidity ratios can be fudged. The problems arise in deciding which banks need which ratios and whether Hong Kong branches of well-capitalised foreign banks need to comply."

Overseas Japanese branches particularly tend to be under-capitalised. But Mr Farrant thinks this should be tolerated, providing the parent says it will stand behind its subsidiary and that the branch is not taking deposits from Hong Kong.

Domestic banks complain that the foreign banks will therefore be able to gear up further in what is already a highly competitive market. But Mr Farrant is unrepentant, as the domestic banks have a cheap retail deposit base not available to the foreigners.

Some bankers fear the degree of discretion allowed to the Commissioner, Mr Alan Smith, managing director of Jardine Fleming, says Mr Robert Fell, the current commissioner, has been "sound, not doctrinaire, and not taken in by the powerful figures in the community. So I am confident if we give him discretion."

"But what happens with the next commissioner? If he is as good, that's fine, but it would be hard to take discretionary powers back if he is not."

With the collapse of OTB, many politicians are talking of setting up a deposit insurance scheme along the lines of the U.S. or the UK. In both the recent bank disasters, the Hong Kong Government had to stand behind the banks to safeguard depositors' money. In the case of OTB that money dipped into its exchange fund to the tune of HK\$ 2m.

An insurance scheme would mean, however, the biggest and best-capitalised banks paying the largest premiums.

Mr Peter Wrangham, general manager of Hongkong Bank, thought to have nearly half the deposits in the territory, points out: "We realise the need to safeguard the interest of depositors in general, but we don't see why the strong banks should subsidise their weaker brethren, who should not have been trusted with depositors' money."

Mr Farrant replies that "Any one who is a good risk does not like paying insurance for riskier people." The alternative—making each bank pay a premium commensurate with

its riskiness—may be more logical but is political dynamite. Who, after all, should be allowed to determine how well-run a bank is?

After OTB many depositors, including foreign banks, are worried about the stability of other local banks. There has been a flight of quality. Hong Kong Bank and Standard Chartered—the two issuers of bank notes—have had to ensure that no other local banks have had liquidity problems because they could not borrow in the interbank market.

### Disclosure

Luckily, this crisis has hit the Hong Kong banking market while it has too much money. But with the meagre standards of disclosure for Hong Kong companies it is hard to find out whether a bank is sound.

It is not as if their underlying business is healthy. Loan demand has been weak. The property companies are only just starting to think about development after the price collapse in 1982-83, and corporate liquidity is high because companies had a good year exporting to the U.S.

The only real demand is in personal mortgages, and here margins have been squeezed. Banks used to charge about 11 per cent points over the prime rate. Now the spread has fallen to between 1 and 1 per cent and some banks are offering gimmicks to win business.

Cosmetically, the banks will probably have a better year in 1985 because they should be able to write back some of the huge provisions they took in earlier years after the property collapse. But that should not disguise the fact that there are still some local banks on the commissioner's intensive care list which are only slowly being nursed back to health.

Foreign investors' confidence will not be boosted by the fact that, in Mr Wrangham's view, "There is nothing to stop this sort of thing happening again."

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## Hong Kong 9

# Worries over future already forgotten

THE WORLD'S third largest financial centre is the title Hong Kong claims for itself—and woe betide anyone who says otherwise. A senior Bank of Japan official who suggested that Tokyo might have edged out the colony to rank behind London and New York was given a predictable roasting.

With more than 100 foreign banks, and the power to move markets well beyond its tiny territory, Hong Kong is one of the main international banking centres by any standard. Even the recent uncertainty about its political future has had little impact on its standing.

"The worry about 1997 is all over. Bankers have made up their mind to forget about it," the representative of a large U.S. bank said.

The decline of the international loan market, for which Hong Kong was the Far East centre, posed a greater threat. But Hong Kong seems to be making up for the loss of syndicated sovereign loan business in other ways.

Like Europe and the U.S., Hong Kong is witnessing the "securitisation" of the banking market: that is, the substitution of straight lending with pieces of paper that can be traded.

"Everything that happens in Europe comes here after a bit of a lag," an American banker said.

Tradeable loan participations, floating rate notes, and note issuance facilities (NIFs) have all put in an appearance, though for local tax reasons they may not always match their Euro-market equivalents.

Hong Kong claims to have invented the NIF in 1978 with a \$500m deal assembled by Citibank for New Zealand, but the trend took several years to catch on.

Bankers complain, however, that Asian corporate treasurers are slow to adopt new techniques. But there is also a large potential market in persuading creditworthy countries in the region to refinance syndicated loans with new-fangled instruments at lower cost.

Moneta has a \$400m NIF, while Malaysia and Thailand seem likely candidates. The Hong Kong authorities are concerned about the fast growth of contingent business represented by NIFs. They have

circulated proposals on how to deal with it as part of their broader effort to strengthen banking supervision. They have proposed that contingent liabilities are given a full weighting for capital adequacy purposes, compared to the half weighting set by the Bank of England. Hong Kong bankers expect to be able to bargain the figure down.

The huge size of the capital markets and the opportunities for international deal-making means that large banks from the U.S., Europe and Japan maintain active merchant banking operations in Hong Kong.

## International Banking

DAVID LASCELLES

Some have also gone into the domestic securities business by acquiring local stockbrokers. Citicorp bought Vickers da Costa, while National Westminster Bank took on Watsons and tied it in with County Asia Securities, its merchant bank local subsidiary.

The renewed strength of the Hong Kong stock market has given a boost to these alliances, though foreign acquisitions of Hong Kong stockbroking interests have not always been successful. Paribas and Merrill Lynch's suffered a disastrous tie-up with Sun Sung Kai. Dynamic though Hong Kong is as a banking centre, many foreign bankers admit that life is tough—and not specially profitable. Apart from being badly over-banked, quality business is scarce.

Property and shipping, two of the colony's biggest industries demand the greatest attention. Bank Bumiputra of Malaysia was the largest, but not the sole foreign bank to suffer. Barclays Bank wrote off \$68m of bad loans last year, mostly property-related. The recent crisis of the Overseas Trust Bank, and the Hang Lung Bank, also point to the need for caution in inter-bank dealings.

Bank of America, Banque

Nationale de Paris and Barclays have also retreated from the domestic retail market, which is intensely competitive and dominated by the strong local banks.

Some U.S. banks, notably Citibank, have taken a big crack at the local deposit market with some success however.

Trade finance offers large opportunities and has become a staple for many banks. Foreign bankers are also cultivating large local companies. Utilities and enterprises owned by both the Hong Kong and Chinese governments for loan and fee-earning business. Barclays arranged a \$100m deal for the new Hong Kong mass transit authority on the U.S. commercial paper market.

Midland Bank is concentrating on foreign exchange markets, and has begun to quote options. Bankers are also jockeying for position in the financing of the new cross-harbour tunnel.

The big hope is that the opening up of China will yield the big bonanza everyone has been waiting for. Already China provides banks with a large chunk of business—mostly project finance for hotels, and trade finance. But that is small beer compared with the billion dollar deals and massive energy and industrial projects that must come.

Meanwhile, banks are having to weigh up the benefits of opening branches in the new economic zones designated by Peking. The cost will be large—between \$250,000 and \$500,000 a year by most estimates—and the rewards hard to gauge. Most bankers fear that competitive pressure will force them in against their better judgment.

The big strategic decisions that international banks will have to take with 1997 than with the growing challenge to Hong Kong posed by Japan as it liberalises markets.

Hong Kong offers the greater and more varied opportunities for foreign banks. It also has back-up like lawyers and accountants. But many bankers believe Tokyo will eventually dominate the Far East financial time zone, and are already preparing for it.

"You had better make sure you are in both markets," one U.S. banker said.

## PROFILE: MICHAEL SANDBERG



## 'Taipan' set to retire

MR Michael Sandberg does not look the most powerful man in Hong Kong. Yet of the three most important jobs in the territory—chairman of Hongkong and Shanghai Bank, chairman of the Jockey Club and Governor—he holds the first two.

He may have missed out on the third, but he can console himself with a seat on the Executive Council, the Governor's cabinet.

Nor is he any ordinary bank chairman. As a fellow banker points out: "The chairman of the Hongkong Bank has total and absolute power."

No shareholder is allowed to own more than 1 per cent of the shares of the bank. Even the board of directors is less powerful than many others. Since most of the members are selected from the ranks of the bank's biggest customers, they can exercise little supervision over the bank's business. If they were allowed to scrutinise the books, they could gain valuable information on their competitors.

Mr Sandberg does not believe in committee management anyway: "We've never had committees—they take so long," he says.

As a result, Mr Sandberg has little problem getting his decisions through. When he announced that the bank's new head office building would cost more than HK\$1bn, many bank staff and shareholders were shocked. As the bank employees prepare to move in, cost overruns have pushed the total up to around HK\$550m.

At least, he says, "It will be very efficient and cheap to run."

Among Hong Kong people, Mr Sandberg seems to have a reputation for being expensive. In buildings, his house, called "Sky High," is up on the prestige Victoria Peak.

Mr Sandberg has been chairman for eight years. He has built up a North American presence by buying Marine Midland Bank and was frustrated in his ambitions to move into Europe when the British Monopolies Commission blocked his bid for the Royal Bank of Scotland.

He also presided over the biggest property collapse in the history of Hong Kong when the Carrion Group, to which he was banker, went bust in 1982.

He joined the bank in 1949 straight out of an Indian cavalry regiment, attracted by the idea of staying in the East. He spent eight years in Singapore and four in Tokyo before moving back to Hong Kong.

Now, at 58, at retirement home, he is planning to return to Britain. He has kept a house and a brood mare there and is relatively sanguine about the upheaval of moving.

And myself getting mildly annoyed with Britain when I read about things like the miners' strike, he says. But when he looks back, I fall in love with it all over again.

Hong Kong is rife with gossip about when he will retire and who will replace him. He did not deny the suggestion that he will step down once the new building is formally opened next April or May.

His successor seems likely to be Mr Willie Purves, executive deputy chairman. Mr Sandberg does not rule out the possibility of the bank having a Chinese chairman one day.

But he admits: "We have been criticised rightly for not promoting Chinese executives quickly enough. We have been very slow. We are trying to amend that, but people have to move through the system."

Having been "tai pan" (big boss) in Hong Kong for so long, it will be strange to retire to the UK. But he should have enough interests to keep him busy.

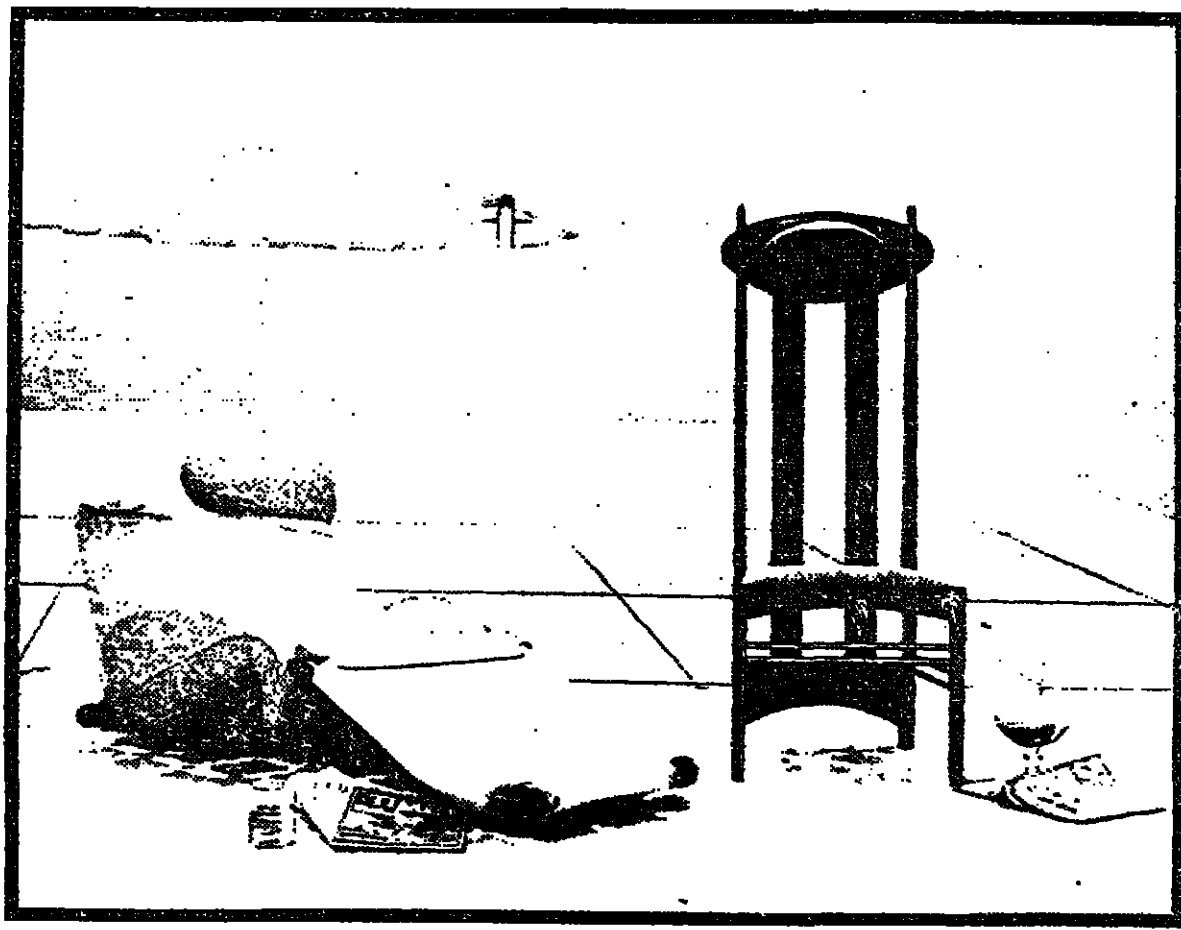
He is a vice-president at the Oval, Surrey's cricket headquarters, and a member of the MCC, though he does not play cricket any more: "My enthusiasm was always greater than my ability."

He collects job watches and owns racehorses in both Hong Kong and Britain.

But he is unlikely to make any money backing his horses. "I'm far too mean," he says.

Mary Ann Sieghart

## The bank that inspires Italy's most imaginative region



Cassina's 'Wink', the chair you dress, converses with 'Argyle', a design by Charles R. Mackintosh

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Such is the attractiveness of Cassina furniture, especially in wood and upholstered furniture chairs, that they are in great demand in all parts of the world. Sixty percent of Cassina's output from their Lombardy factory is exported. Furniture based on Cassina designs is also manufactured under licence all around the world.

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large, medium and small companies of all industrial sectors that make Lombardy Italy's most thriving region, responsible for a quarter of Italy's entire GNP.

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## Sisters in prosperity

THE 12 "sister banks" which operate in Hong Kong under the umbrella of the Bank of China were once regarded as a ramshackle array of left-overs from the 1949 revolution. But in the eight years since Peking introduced its policy of opening up to the outside world, their role has been transformed—with important consequences for the territory's banking industry.

Since 1978 the sister banks have become an organised banking force that is now second only to the Hongkong and Shanghai Banking Corporation. They account for about 270 branches—a dozen or so less than the Hongkong Bank—and operate about 400 automatic teller machines, again on a par with the Hongkong Bank group.

They have won a significant share of Hong Kong's retail business—particularly among the more patriotic working classes. Their account for deposits estimated at HK\$60bn—about 15 per cent of the territory's total.

Yet little is known about the sister banks. Their dealings are done discreetly, hidden from view by Hong Kong's "no questions asked" regulatory environment. They seldom collaborate with banks outside the Bank of China group, and their managers speak English, and most keep a low profile.

The banks in the group (in Chinese the Zhongying Jituan) were, up to 1949, the Hong Kong branches of banks incorporated in different parts of the mainland. In the wake of the Communist revolution, all banks on the mainland were nationalised and absorbed into the People's Bank, China's central bank.

Even today only four of the sister banks are incorporated in Hong Kong—the Nanyang Commercial Bank, the Chi Yu Banking Corporation, the Huachiao Commercial Bank and the Posing Bank. The other eight maintain the fiction of a head office in Peking, though this is in most cases just a nameplate at the Bank of China's headquarters.

With the overthrow of the Gang of Four, and Deng Xiaoping's ascent to power, Peking's commitment to opening up to the outside world gave the sister banks a new significance. They were under pressure to garner foreign exchange for the country's modernisation, provide funding for growing external trade, provide training for a new generation of Chinese bankers, and most recently to help maintain the stability and prosperity of Hong Kong up to 1997.

The turning point was the arrival of Jiang Wengui five years ago to set up the Bank of China's Hong Kong regional office. Until then the sister banks' operations were unco-

ordinated, and often at odds with each other. From 1981, however, they were directed to this office. Two Macao banks also answer to Mr Jiang, the Nantong Bank, and the 50 per cent-owned Banco Taifung.

There have been strict limits on the amount any sister bank can lend without reference to the Bank of China—HK\$20m for secured loans, and HK\$5m if unsecured. Banks like the Posing have retained their role as specialists in bullion trading while others have consolidated traditional roles, such as financing Hong Kong's meat and vegetable imports from the mainland.

## Bank of China

DAVID DODWELL

As time passes divisions have begun to blur. The banks use a common electronic clearing system and are supervised in the same way. It has become more important to note which are most strongly capitalised and which more aggressive and innovative.

Three sister banks seem the most dynamic:

● The Nanyang Commercial Bank, which has led organisation of international syndicates for loans inside China, and credit cards and travellers' cheques.

● The Sin Hua Trust Savings and Commerce Bank, which has developed strong links with U.S. banks and businesses.

● The Kinchen Banking Corporation, which has strong Japanese links. It has set up a merchant banking venture with Japan called Kinchen Tokyo Finance.

The instruction to foster Hong Kong's stability and prosperity has led the sister banks deep into the territory's manufacturing sector. Many investments are disguised but

involvement has been clear in property development, in warehouse construction, in Hong Kong's Kwai Chung container terminal, and in funds for the Mass Transit Railway Corporation.

Sister banks are also supporting some of the consortiums bidding for the HK\$3bn contract to build a second cross-harbour tunnel in Hong Kong.

Less happily, they have found themselves supporting some of Hong Kong's lame ducks. These include Conic Investments, the electronics group that had to be rescued last year, Ching Cement, the loss-making cement manufacturer, and Millies, the retail chain spanning Hong Kong and Shenzhen which went bankrupt.

They have been important conduits for overseas Chinese investments inside China, particularly in hotel construction and in the 14 open coastal cities. The Bank of China has allotted to each of the sister banks responsibility for channeling investment from Hong Kong into particular open cities.

They have at the same time taken steps to become more international. Zhang Xueyao, the Bank of China's new head, was until recently head of the Bank's New York office. Some 20 finance companies have also emerged under the Bank of China's umbrella, many increasingly active in merchant banking.

Apart from Sin Hua's links with the U.S. and Kinchen's with Japan, the Nanyang Commercial Bank has opened a branch in San Francisco and applied for a licence to open in Toronto. It has a full service branch in Shenzhen.

The Kwangtung Provincial Bank is applying for a branch operation in Shenzhen and claims to have an office in Singapore.

As well as loans for ventures in China or Hong Kong, they have become involved in project funding overseas. One for an Australian venture was agreed early this year.

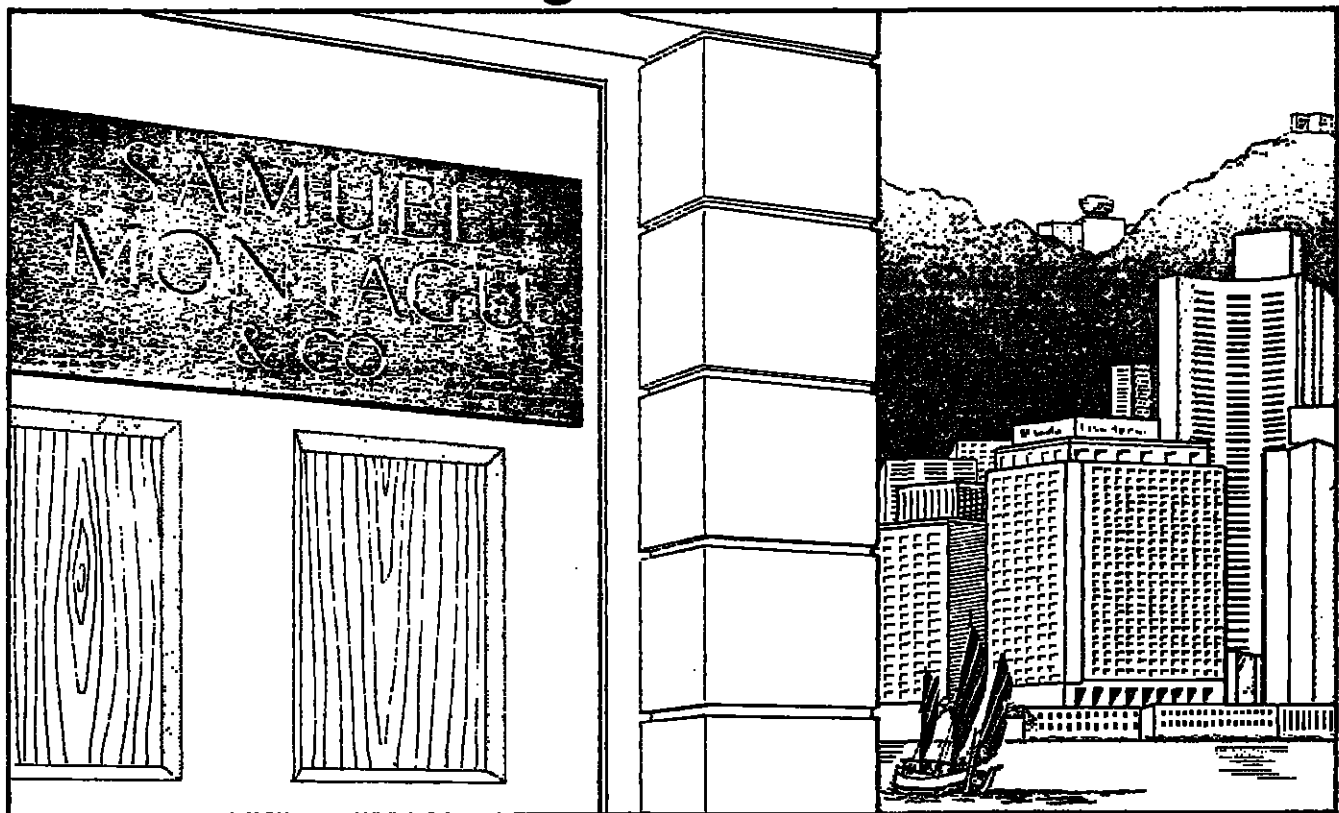
## Sister Bank links with China's 14 open Coastal Cities

Bank of China	Shanghai, Beihai
Bank of Communications	Lianyungang, Nantong
China and South Sea Bank	Qingdao, Yantai, Hainan Island
China State Bank	Dalian, Hainan Island

Chi Yu Banking Corporation	Xiamen
Hua Chiao Commercial Bank	Kunming, Shantou
Kinchen Banking Corporation	Shenzhen, Guangzhou
Kwangtung Provincial Bank	Zhanjiang, Guangzhou
Nanyang Commercial Bank	Dalian, Tianjin

National Commercial Bank	Ningbo, Wenzhou
Po Sang Bank	Qindao, Yantai
Sin Hua Trust, Savings and Commercial Bank	Tianjin, Fuzhou
Yuen Yeh Commercial Bank	Qinhuangdao

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# Massive spending boosts services

**Transport**  
MICHAEL CASSELL

KEEPING 5.5M residents on the move in one of the most densely populated places on earth represents a daily challenge capable of testing to the limit Hong Kong's famous energy and ingenuity.

Most of the population live in an urban area of under 100 sq kilometres around one of the world's busiest harbours. Every day, more than 8m passenger journeys are made on a public transport system that includes two railway networks, buses, trams, minibuses, taxis and ferries. Private cars, for those who can manage to afford and park them, add to the potential cocktail of chaos.

Hong Kong's travel problems have become as famous as its floating restaurants and its festivals, a part of the colourful pandemonium visitors are encouraged to expect. For residents, however, the daily reality of crushes and queues has for years been one of the less attractive aspects of life in the territory.

Recently, however, the picture has been changing and there is widespread evidence that the massive programme of capital expenditure aimed at extending and improving the territory's transport system has started to pay off.

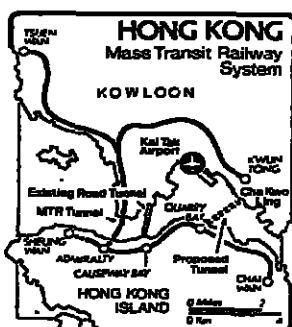
Just about every element of the transportation system, from the Mass Transit Railway, to the roads on Hong Kong Island, the buses which use them and the Kowloon-Canton railway have benefited from heavy spending programmes. The Government, which runs none of the transport undertakings itself, is clearly encouraged by the recent improvement in services, though not yet content.

Mr Ian Macpherson, Secretary for Transport, sums up the situation: "The principal challenge is handling the vast numbers of people involved in a highly mobile workforce. No more than 10 per cent of the population owns or has access to a car."

Mr Macpherson emphasises that decantation to the new towns has become an increasingly significant factor in Hong Kong's transport network. Although the new centres of population are seen as self-sufficient, job opportunities have not kept up with population growth, so large numbers of residents still have to commute daily to work.

At the core of the territory's transport system is the Mass Transit Railway, which has now been operational for 10 years. This May, the new Island line opened to the public and when work on it is finally complete next summer, the MTR network will extend to 27 stations over a 36 km route.

The HK\$11bn Island line is



expected to generate an extra 300,000 passengers a day for the MTR system, now carrying around 1.2m people a day. The likely increase in passengers represents a fall from projections made when the Island Line was given approval in 1980, principally because of improvements in local bus services—made possible by reduced road congestion and larger passenger vehicles.

In its last annual report, the Mass Transit Railway Corporation had to concede that increasing competition and resistance to MTR fare increases led to a small fall in the number of passengers carried in 1982—down by 1m to 41m.

There is also some concern that the railway could be adversely hit by the construction of the second harbour crossing, if the new link is confined to a road tunnel only. Tenders are in for the project—the nine bids

come from names like Kumagai Gumi and Hopewell Costain—and a decision is due by the end of the year. The tunnel, to cost HK\$1.8bn upwards, depending on the nature of the link, should be operational by 1988.

Overhauling the MTR's short but impressive history are fears over its financial position. The corporation has become the largest borrower in Hong Kong. The corporation has raised HK\$24.5bn for investment in the underground railway network and, at the end of 1982, total loans outstanding stood at HK\$17.75bn.

Last year, the MTR Corporation recorded, after interest and finance charges, an operating loss of HK\$545m and it has given a warning that, because interest on loans raised to finance the Island Line has been capitalised during construction and must now be charged to the profit and loss account, shareholders' funds are rapidly drying up.

Concern that the corporation's liabilities could eventually exceed its assets have been forcefully expressed to the Government, its only shareholder, which is actively considering plans to improve the railway's financial health. The corporation is confident that the position in respect of shareholders' funds will be rectified shortly.

The MTR's above-ground counterpart, the Kowloon-Canton Railway Corporation, incorporated at the end of 1982 and still wholly owned by the

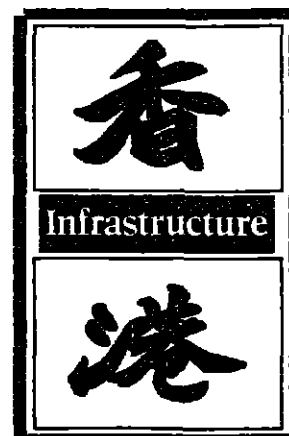
Government, is also currently recording net losses in the wake of its HK\$3.5bn electrification and modernisation programme.

In 1982, losses fell back from HK\$154m to HK\$56m and debt outstanding to the Government was cut to the prescribed HK\$1bn. Mr Peter Quick, managing director of the KCR, says the Government clearly expects a return on assets after its huge investment and that the railway "should be profitable within a few years."

The modernisation programme has quickly started to pay big dividends and the increase in traffic has taken the corporation itself by surprise. Last year, the railway carried upwards of 250,000 passengers a day—five times more than in pre-electrication days—an improvement which reflects population growth, the attraction of the new service and growing traffic to and from China. The KCR expects the number of passengers carried by the system to reach 500,000 daily by the early 1990s.

The railway is now the major carrier of people up and from China, with just over 13m people making the journey last year. In 1982, 17 per cent of the railway's total revenue was derived from freight traffic, the overwhelming proportion of it moving south across the border into Hong Kong.

The KCR is also deeply committed to the construction of a 34km light rail transit system to serve the public in Tuen Mun



Moving large numbers of people by land and air, and a growing volume of goods by sea have involved heavy investment—and some controversy. Substantial spending on property, meanwhile, is looking more credible

and Yuen Long, western New Territories. The first HK\$1bn phase of the network is now out to tender and the five international consortia—from Belgium, Canada, United Kingdom, Australia and Japan—will know the outcome this summer.

The first phase of the light railway, accounting for about 70 per cent of the proposed system, should be complete by mid-1988. When finished in the 1990s, the new network, which has aroused the interest of transport authorities around the world, will be capable of moving 70,000 passengers an hour, to become the backbone of an integrated public transport system for the region.

Back on Hong Kong island, the Government, which provides HK\$2bn a year for the territory's transport infrastructure, is poised to decide some time this year whether or not to introduce its most radical

attempt yet to solve the problem of traffic congestion.

Since 1983, when car registration tax was raised, around 25 per cent of the local car population has been taken off the roads. Even so, there are sufficient numbers to create regular chaos on the territory's limited road network.

But aware of criticism that such blunt fiscal measures meant people living in the outlying areas were being penalised along with those using the most congested, central areas, the Government devised its electronic road pricing concept, designed to impose a "pay as you drive" tax on car owners. A system of loops embedded in the road surface, combined with electronic number plates attached to vehicles, monitors traffic movement and imposes a charge on individual vehicles. The average motorist could

face a monthly bill of around HK\$100, rising to HK\$300 for some and estimates suggest the system could cut peak traffic by about 10 per cent. The Government is warning that, whichever path is chosen, a failure to resolve the traffic problem could lead to a total "lock-up" on the roads by 1991.

A pilot scheme in Central has been working well and a decision on whether or not to sanction its widespread introduction could come this year.

Buses have been hit by the MTR and KCR, although they remain cheap and convenient and still manage to carry an estimated 80 per cent of the travelling public. As for the territory's colourful, crowded trams, there are fears over whether they will continue to have a role in a community where the art of good public transport has made enormous advances in recent years.

## Back from the depths of trauma

**Property**  
MICHAEL CASSELL

THE Hong Kong property market appears finally to be back on its feet, though any claims of a complete recovery remain premature.

After the disasters of the last few years—which saw acres of unwanted space, rent and price collapses of 50 per cent or more, and endless corporate dramas—the real estate sector has regained some of its old self-confidence.

A strong manufacturing and export-based performance in 1982 combined with the Sino British agreement helped the property market pull out of its spectacular nosedive. The agreement had plenty to say on property and helped clear up many of the fears which had helped traumatised the long-term investment market.

Of particular importance was Annex 111, which confirmed that leases extending beyond 1997, including 75-year leases and 999-year leases—would continue unchanged and be recognised and protected under the law of the special administrative region after 1997. The appointment of a Land Commission to implement the annex was also announced, although considerable uncertainty remains over its responsibilities.

There is an understandable reluctance to claim that all the difficulties are over with the political air cleared and the economy improving. But there is no mistaking the general air of optimism which has crept back.

Last year, according to chartered surveyors Colliers, Peto & Partners, about 5.5m sq ft of office space was taken in Hong Kong, a 20 per cent increase over the previous 12 months. Take-up of flat factory buildings rose by about 18 per cent, and similar positive trends were evident in the residential market.

Throughout the recent difficult days, retail has managed to remain buoyant because purchasing power was maintained and tourism continued to boom.

### Overpricing

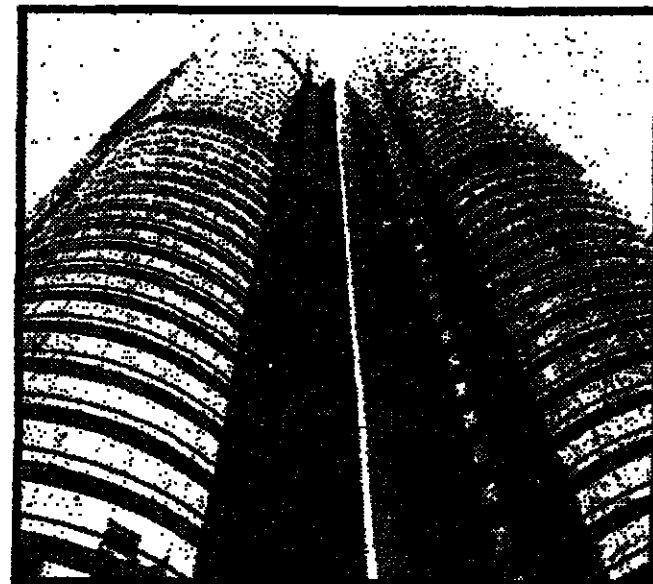
According to Mr George Doran of Colliers: "The office market has experienced an across-the-board improvement over the last year and we expect the recovery to continue, although we do not anticipate anything spectacular. A continuing general oversupply of space should be useful in helping to dampen down rents."

Once again the residential sector seems to be leading the recovery, with demand quickly improving and signs that land prices are rising to reflect higher levels of interest. During 1982 and 1983, private housing output fell to almost two-thirds of peak 1981 levels as the market adjusted to oversupply and falling prices and rents.

By the end of 1983, prices were standing as much as 25 per cent below those of two years earlier. Recent events have shown that the main problem was overpricing rather than any serious lack of underlying demand.

Brokers Hoare Govett say there is much greater price and rental value uniformity in the residential sector in contrast to the wide differentials which prevailed at the top of the boom. This narrowing premium reflects a more realistic approach by developers to pricing policy and it appears to be a winning formula.

But there are already fears that the recovery will have an unwelcome impact on prices. The residential sector has taken



HongKong Land's Exchange Square, a 1.2m sq ft office development, is 40 per cent let but at rents well below what must have been originally expected.

from several European countries."

Many new arrivals will head straight for Central, giving rise to hopes that the prime office market will not tighten further. Ironically, HongKong Land is adding to the end-1984 vacancy rate of 8 per cent with the completion of Exchange Square, the 1.2m sq ft office centre which represents about three years' take-up in Central.

Exchange Square is nearly 40 per cent let. Some tenants are moving from one HongKong Land building to another.

### Encouraged

Rents being achieved at Exchange Square provide a measure of how badly the market fell apart from 1981. HongKong Land is asking HK\$10 to HK\$23.50 a sq ft plus HK\$2.25 service charges for space in the territory's premier building. It is probably settling for about HK\$16 to HK\$18 a sq ft when concessions are taken into account.

At the peak, Central rents hit HK\$30 a sq ft and HongKong Land must have been expecting HK\$40 a sq ft or more when the go-ahead on Exchange Square was given.

Present supply and the impending increase in available space created by other major developments in the pipeline means the outlook for rental growth appears limited. When the Hong Kong and Shanghai Bank building is completed later this year, for example, it will release up to 350,000 sq ft of space in Admiralty Centre and the China Building.

The Government will, similarly, leave substantial floor-space behind when it occupies its newly-developed premises in Central and Wanchai. Encouraged by recent evidence of improving values, the Government would add further to the longer-term supply by releasing more land for development.

Mr Stewardson believes there is some room for modest, medium-term rental growth but cannot see a return to the previous peak levels. He suggests top rents of HK\$28 a sq ft by 1985, with the second phase of Exchange Square coming onto the market.

In spite of continuing caution, the market is more confident than for several years. Rents and prices have bottomed out and general oversupply will continue to hold the situation in check for some time.

But there are dangers even in revival. Any significant upturn in values could quickly flush out sellers from the large numbers of reluctant property investors left holding some shaky assets during the last crash and waiting for the opportunity to realise them at reasonable prices. That could halt any recovery, as could any change in what must still be a potentially volatile political and economic climate.

For the time being, however, optimism is back.

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**Richard Ellis**



## Hong Kong 11

## Fleet shrinking but port traffic booms

## Shipping

LARRY KLINGER

THE MOOD among Hong Kong's shipowners, whose fleet numbers among the world's four biggest with the U.S., Japan and Greece, is uncertain. They feel that 1983-84 may have been the bottom of the 10-year depression in shipping and see signs that supply and demand may be starting to come back to equilibrium. But they cannot foresee any return to real growth until the 1990s, with continuing world overcapacity threatening to drive weak companies out of business.

On the other hand, the mood in the territory's port, both among the authorities and operators is decidedly optimistic. Much emphasis is placed on Hong Kong's achievement in maintaining its strong export performance, in spite of a flagging world economy, and on the booming entrepot trade with China.

The major expansion programme in the Kwai Chung container port is continuing, and the Government has just launched its consultative process aimed at creating Hong Kong's own shipping registry in anticipation of the reversion in 12 years of sovereignty over the territory to the mainland.

The Hong Kong fleet has withstood the crisis better than most because of its long-standing conservative tradition of ordering new ships only when charters have been arranged or are in firm prospect. Executives continue to spill out this policy with some pride, but like their counterparts in other countries they are feeling the pinch: charters are expiring, and the recent collapse of what were thought to be gold-plated charter-holders, especially in Europe, has hurt.

The fleet has been shrinking, from 60m tonnes a few years ago to 57m (or even 55m according to some estimates). For instance, Worldwide Shipping, the Hong Kong leader and once the world's largest independent, controlled some 20m tonnes in 1981 but now has only 9m. It has not placed a new building order in three years.

Wah Kwong, the territory's third largest owner, is still managing to sell old vessels and

to buy new ones, but this year, it has not placed an order in Japan for the first time in 20 years.

Hong Kong executives say there is not enough scrapping taking place world-wide to make a big enough dent in overcapacity for freight rates to rise significantly. Ship-building nations seem unable to end their subsidies because of the need to protect jobs and maintain their companies for prestige and strategic reasons, the Hong Kong executives say.

In bulk carriers, for instance, estimates put current scrapping at between 5m tonnes to 6m tonnes annually. "What is needed to make any real effect is 10m tonnes a year," says Mr Helmut Sothen, senior vice-chairman at Worldwide.

## Difficulties

"There is still about 30m tonnes of dry bulk carriers on order to be delivered by early 1987. That, even with deferrals and cancellations, could mean 1m tonnes per month."

Many smaller companies are reported as being in serious difficulties. Some which had 18 to 25 ships in the recent past now have only two or three, having run through a series of distress sales to finance remaining ships. One company, having bought a "handy-sized" bulk carrier for between U.S.\$11m and U.S.\$12m two years ago, is trying unsuccessfully to sell it for around U.S.\$8.5m.

However, the majors are confident that they will be around to take advantage of an eventual upturn, however painful the interim may be.

"Hong Kong has lived through the depression longer and more comfortably than many others and should not lose out, given its expertise in management and finance. Shipping is not going to disappear. It is needed to fuel world trade. You can't air-freight iron ore, coal, timber or oil," Mr Sothen says.

The big groups also think the upturn could now slowly begin. Encouraging factors include declining interest rates. Shipowners quote current rates in Europe at about 9 per cent against 16.5 per cent previously and in Hong Kong at about 8.5 per cent against 17 per cent earlier.

Other points being made are:

• The tendency to subsidise

shipbuilding is slackening in many countries, notably in Britain, West Germany, Holland, Spain and Sweden, and more ships are being laid up.

• Freight rates may at long last be improving. Tramping rates have certainly climbed, and it is thought that liner rates might soon stabilise at higher level. One executive noted panamax rates for certain categories at between US\$8,000 and \$7,500 per day against rates of \$4,000 not long ago.

• World steel demand is improving, led by the U.S. and Japan.

• The U.S. dollar, to which the Hong Kong dollar is pegged, is declining, and this should spur Hong Kong exports, especially to Europe as currencies there appreciate against Hong Kong's. Ironically, the strong U.S. dollar was in part the reason for the port's continued high growth. "With the strong dollar able to vacuum up exports, the containers kept coming back, even if they were empty, because Hong Kong was the seller to America," a port official said.

Port growth has been running at about 10 per cent annually, and this was maintained in the first quarter of this year, with cargo discharged up nearly 4 per cent and cargo loaded up about 20 per cent.

"The future is still hard to predict, however, because of the world trend towards protectionism," an official said. "We were predicting 5 to 6 per cent growth and got 10 per cent. The U.S. is slipping, but trade with China is booming."

"Pearl Plover barge exports are up more than 90 per cent over last year. There is also some action from Europe, especially in cars for roll-on-roll-off."

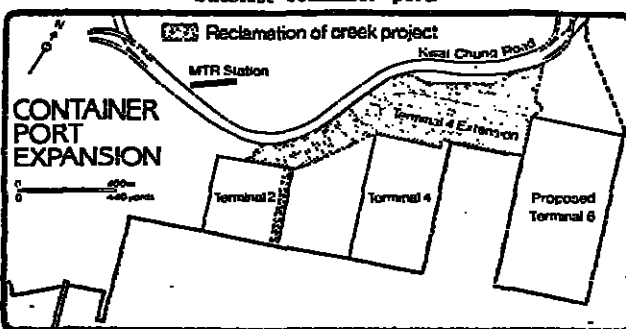
The really remarkable growth is in the port's container trade, expected soon to overtake New York as the world's second busiest after Rotterdam. Hong Kong is already first in terms of intensity of space usage.

Modern Terminals Ltd (MTL), which together with Hongkong International Terminals (HIT), handles about 80 per cent of the port's container traffic, says its growth last year was 17 per cent but it expects only 1 per cent to 2 per cent this year.

This will, nevertheless, maintain our trend over the past seven or eight years, when growth fluctuated between 2 and



Expansion is under way at Kwai Chung (below) to cope with growth expected to make this the world's second busiest container port.



18 per cent to give us an average of 8 per cent," said Mr Andrew Milliken, general manager of MTL terminal operations. Current expansion is designed to provide much-needed supplementary room for container marshalling and involves a HK\$650m investment to reclaim land in the Creek area behind the existing terminals, and the purchase of the latest handling equipment.

## Guarantees

Tripartite negotiations between MTL, HIT and the Government are at an advanced stage on a HK\$2bn project to create a 70-acre sixth terminal. This, together with the existing work, will roughly quadruple the size of the container port. It is hoped that terminal six will be complete in 1989.

"This is our answer to those who keep talking about Hong Kong's uncertainty over the future," said an official. "We believe, at least as far as the port is concerned, that China guarantees our future."

The Government is also looking towards the future with China and has published first proposals aimed at establishing Hong Kong's shipping registry before the territory leaves British control.

The registry is provided for in the Sino-British agreement on the 1997 transfer of sovereignty. It will be allowed to issue certificates under

Hong Kong legislation in the name of "Hong Kong, China." The proposals also envisage the establishment of a government-appointed Shipping Advisory Board to comprise officials and others representing shipowners, shippers, general business interests, banks, insurance companies and unions.

Shipowners gave it a cautious welcome. The Hong Kong Shipowners' Association said the government's views were well-defined and that the 10-week period for public response was generous. "There are basic differences in the government's views from those of the shipowners, but there is also much unanimity as well, it said.

Individual shipowners say that they have been asked by the government to limit public response until all views of interested parties are on the table. Privately, however, they say that there are many difficult technical details that need to be agreed, because they believe that basing the new registry too closely on current British legislation would not be adequate to meet today's needs.

However, both the government and the industry maintain that they are in agreement that the registry will not become a flag of convenience and that its requirements will be stringent. "The Hong Kong Register of Shipping, Economic Services Branch, Government Secretariat, May 1985.

## Dragonair flies into controversy

HONG KONG'S air licensing authorities are likely to have far-reaching implications for carriers using the territory — particularly Cathay Pacific, and especially on routes into mainland China.

The immediate focus for controversy is Dragonair, a new airline that only two weeks ago took delivery of its first aircraft, a leased Boeing 737. Within two months Dragonair plans daily charter flights to Shanghai and Peking. It aims to capture a significant share of the air traffic between Hong Kong and China's two main cities.

Until a month ago the venture attracted little attention. But one official said: "We have come face to face with the fact that this is no hack affair. Dragonair has a strong organisation, strong financial backing, and powerful political support."

"They still have a long way to go but seem determined to make significant inroads into Hong Kong-China routes — and might succeed."

Dragonair's application for an air operator's certificate is still in the hands of Hong Kong's Civil Aviation Authority. Applications for licences to fly daily charter routes to Peking and Shanghai can be made only when the certificate has been cleared. But the signals are that its leased Boeing may be making its maiden run into China by the beginning of August.

Air traffic rights into and out of Hong Kong are a sensitive affair. Kaitak Airport is close to capacity, and it is a lucrative stopping-off point in most airlines' regional and global route plans.

But most important, as the territory moves closer to control by China, so the allotment of flying rights has become a symbol of Peking's willingness to give Hong Kong the "high degree of autonomy" it promised under the Sino-British agreement.

Air traffic rights became one of the most intractable subjects during the two-year negotiations over Hong Kong's future through fear that CAAC, which acts both as China's national airline and its aviation authority, would seize a unique opportunity for self-aggrandisement after 1997. By controlling the right of airlines to fly into and out of Hong Kong, it could strengthen its international

route network, and undermine Cathay Pacific, which is Hong Kong's de facto flag carrier even though it is British-owned.

Cathay succeeded in convincing negotiators that anything undermining it would also be seen as undermining Hong Kong's autonomy. There were signs of relief when the agreement provided leeway for the post-1997 Hong Kong Government rather than Peking to negotiate air service agreements "for airlines incorporated and having their principal place of business in Hong Kong" for with China. The only eligible airline under these criteria was Cathay.

## Airlines

DAVID DODWELL

Dragonair is potentially controversial because it has been incorporated locally, and will be based in Hong Kong. With backing from China, it would be able to usurp Cathay.

The fear may seem distant and exaggerated given the maturity of Cathay and its formidable reputation. But that takes no account of the people who own Dragonair. The Hongkong Macao International Investment Corporation, set up days after the Sino-British agreement has backed the airline to the tune of HK\$500m. Its list of 31 main shareholders includes the richest and most influential of Chinese businessmen.

They include Sir Yue-Kong Fao, who heads the Hongkong and Kowloon Wharf and Godown Company, Mr Li Kashing, who heads property group Cheung Kong and the trading and property group Hutchison Whampoa, Mr Henry Fok, who has extensive property and business interests in Hong Kong and Macao, T. K. Ann, who heads the textile group Winsor Industrial, and Chao Kuang-Piu, whose Novey Enterprises is among Hong Kong's biggest garment companies.

The Bank of China holds a 22 per cent equity stake and Peking's main trading arm in Hong Kong, China Resources, holds 12 per cent. With such backing, the air-

line's influence inside China is second to none. Hong Kong's aviation authorities will have to decide whether it should be seen as a British airline or a Chinese one. This will be critical when Dragonair applies for rights to fly scheduled services to China and overseas.

Such agreements are based on a balancing of reciprocal rights, and while CAAC would want to see Dragonair on the British side of the negotiating table, Britain would prefer to see the airline sitting alongside CAAC.

Mr Steve Miller, recruited three months ago to manage the new group, is facing more practical problems. Apart from ensuring he wins the air operator's certificate, he has staff to train, flight plans to prepare and booking procedures to arrange. He ducks the sensitive political issues which government officials see looming.

Cathay Pacific insists it is unruffled by the prospect of stiff competition, but is concerned to protect its plans for scheduled flights into China. It fought for more than three years to win the right to operate a scheduled service to Shanghai, and has only recently won clearance to increase flights to three a week.

It is still to win the right to fly to Peking, or any other part of China. It has been allowed charter flights during Chinese New Year and other major holidays, but refused the right to more regular charters, even though demand for flights into cities like Peking and Shanghai greatly outstrips supply. Cathay suspects that Dragonair's application for daily charters is a sleight of hand for scheduled rights, and it is not alone.

Cathay will apply alongside Dragonair for any new routes offered by Peking, scheduled or chartered, and the contest is likely to provide important signals on how China intends to interpret the Sino-British agreement.

In September this year Britain and China will negotiate a new air services agreement. By then Dragonair should be flying a second aircraft between Hong Kong and the mainland. If it then applies for scheduled rights, an unprecedented contest is likely to ensue.

Government officials confess they are already losing sleep on the issue, and they are likely to lose much more before it is resolved.

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## Hong Kong 12



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## Investment lessons from outsiders

### Manufacturing MICHAEL CASSELL

IN SPITE of the rapid development of Hong Kong's service industries, manufacturing remains the mainstay of the economy. It accounts for more than 20 per cent of gross domestic product, absorbs about 40 per cent of the labour force and exports about 90 per cent of output, placing Hong Kong high up the international league of trading nations.

With a population of about 5.5m, Hong Kong has always been forced to seek overseas markets to sustain its manufacturing industries. It has to rely on exports to survive.

Hong Kong's industries are primarily engaged in production of consumer goods, ranging from textiles and clothing to electronics, plastics and light metals. At the heavier end, the territory produces a wide range of industrial machinery, offers shipbuilding and repair services and aircraft engineering facilities.

Having once relied heavily on access to the UK market to assist its transition from entrepôt status to a domestic manufacturer, Hong Kong now sells to the world. Such has been the increasing diversification and sophistication of its manufacturing skills, that since 1983 the value of electrical and electronic exports has exceeded those of the garment industry.

The significant move away from the production of lower-end, light manufactured goods to today's relatively high-quality products underlines the pres-

ures which the manufacturing sector faces. These include rising labour costs, increased competition in overseas markets, frequent changes in demand and more stringent quota restrictions on textiles and garments.

Import restrictions on textiles introduced in the U.S. serve as a reminder to manufacturers that no market, however well-established, offers an indefinite guarantee of success. The threat of increasing protectionism, however, is not confined to developed markets. Hong Kong has to face up to the prospect of pressures from the other end of the scale involving developing Third World countries anxious to increase their own industrial base by means of exports.

### Skills

The threat from these new competitors will be seen first in the lower-quality end of Hong Kong's existing markets, increasing the need to move up-market as far as existing products are concerned and to seek new and innovative products to attract the consumer.

In the shorter term, the recent decline in capital investment in Hong Kong's manufacturing sector, brought on by the worldwide recession but prolonged because of political uncertainties, has been brought to an end. The signing of the Sino-British agreement has already given a further boost to the upsurge in expenditure.

The level of overseas investment in the territory's manufacturing sector continues to rise. The number of industrial establishments with overseas

interests may be small—90 per cent of Hong Kong's industry is indigenously owned—but the benefits they bring in areas like technology transfer, modern management skills and technical training can work to the entire manufacturing community's benefit.

A report on overseas investment in local manufacturing industry prepared by the Industry Department showed that known foreign investment by last autumn was HK\$11.4bn, a 63 per cent increase over three years. The U.S. was the largest source of investment finance, accounting for just over HK\$6bn (54 per cent), with Japan (21 per cent) in second place and the UK (7 per cent) third.

The leading areas for overseas investment remain electronics, electrical manufacturing and textiles and garments. In a clear message for local industry, the report noted that businesses with overseas investment connections which proved to be more capital intensive and more prepared to automate production methods. In addition, they tended to consider joint ventures more readily and were also more disposed towards diversifying product lines.

The position of the electronics sector underlines the relevance of the message. Because of a downturn in U.S. demand, Hong Kong manufacturers face shrinking demand and over-dependency on a limited product range.

Although the sector has been outstandingly successful in consumer markets, for example, it has not generally succeeded in establishing an industrial business for supplying the computer and telecommunications sector.



Local companies have been told that they must improve technical ability and devote more resources to manufacturing equipment.

A shake-out is forcing companies to move up-market into higher added-value products.

The Government has recognised the contribution it can make in promoting the process. It has introduced projects involving industrial support service and technical back-up, including a series of techno-economic studies in electronics, metals processing, technology transfer and automation. It is also funding three research and development projects involving integrated circuit manufacturing and computer-aided design and manufacture.

The intention is to spread the more enlightened view of forward investment held by companies helped by overseas finance. According to the Industry Department report, most foreign investors with a foothold in Hong Kong industry feel that the climate for investment is favourable. This is principally because of the territory's good communications, consistent economic policy of free trade and free enterprise, its freeport status, low tax, excellent shipping and cargo handling facilities, lack of exchange controls,

Manufacturing, while facing new pressures, remains the mainstay of the economy, backed by important sectors like fishing and tourism. China has taken direct investments preparing for the 1997 takeover

and efficient banking and insurance sector.

On the downside, investors criticised the traditionally high labour turnover, rising labour costs, lack of special fiscal incentives and the non-availability of long-term leases for business premises. Some investors are never satisfied, although the suggestion deserves to be taken seriously that inadequate supporting industries like precision machinery, die-casting and forging are limiting the scope for expansion.

Their performance implies their views are worth listening to. Sales from the factories involving overseas investment have increased by nearly 60 per cent since 1980 and their share of domestic exports has reached about 18 per cent. It is generally accepted that indigenous manufacturers must adopt some of the policies of their foreign-financed competitors to maintain past successes.

Mr John Yaxley, Hong Kong's Director of Trade, told a recent meeting of businessmen that while the territory had made big strides in upgrading industry, often through foreign investment: "The development of technology application is still, on the whole, relatively slow and limited."

"Provided that our manufacturers are willing to make the necessary investment, the fact that we have been relatively slow in adopting automation and modern, computer-related techniques works to our advantage."

"We now have at our choice, machinery and computer systems which are not only tested in application but which have become more sophisticated with greatly enhanced capabilities, and which sell at much reduced prices."

The need to re-equip and take advantage of latest production techniques will become more pressing as Hong Kong's "domestic" market expands to embrace China, with its 1bn consumers. After China's implementation of the new "Open Door" policy and greater internal liberalisation, there has been a major increase in the purchasing power of the Chinese people, resulting in higher demand for consumer goods.

Chinese factories are also buying a rising volume of semi-manufactured products and industrial machinery to expand operations.

The prospect will also bring increased competition for Hong Kong producers as China takes up the manufacturing challenge.

## Gamble has paid off handsomely

### Toys MICHAEL CASSELL

THE PEOPLE of Hong Kong love a gamble, which is just as well, bearing in mind the territory's role as one of the world's biggest toy manufacturing centres.

In the words of Mr. Bill Blauw, of Meco Mouldings, one of Hong Kong's best-known toy producers: "Toy production appeals to the entrepreneurial Chinese who have an inbuilt gambling instinct."

"If you want to make toys you have to gamble. A mould for a new toy can cost HK\$50 or HK\$500 but it can be out of fashion in six months. Other lines can go on forever."

Hong Kong's toy industry gamble, now almost 30 years old, has paid off handsomely. In terms of value, the territory is now the world's leading exporter of toys. In 1984, total exports—including re-exports—from Hong Kong of dolls, toys and games amounted to HK\$11.5bn, of which just under 60 per cent went to the U.S.

The American market for toys, games, hobby craft and models was worth about US\$6bn last year and Hong

Kong has managed to take a growing share of rising sales. Although the Hong Kong toy industry is large it remains highly fragmented, with estimates of the number of individual manufacturers at around 2,400. They are thought to employ about 60,000.

Traditionally the local toy manufacturers concentrated on low-cost and labour-intensive products like inexpensive plastic toys and dolls. More recently, the industry has expanded to include a wide range of toys and games, many of which are of high quality.

Apart from its long-developed skills in plastic moulding, one of the industry's strengths has been its ability to react quickly to consumer demands.

Mr Dennis Ting, chairman of Kader Industrial, which does not produce its own product lines but manufactures on behalf of others, says: "Hong Kong has stayed on top because of its long experience in plastic moulding and its ability to meet its customers' demands at short notice."

"We can produce in bulk and on time and have the technical resources to help with the development of new lines."

Kader obtained a stock exchange listing in May, largely on the back of its success in

producing Cabbage Patch dolls for sale in the U.S. It intends to develop a production complex in Kowloon Bay to replace its factory at North Point on Hong Kong Island.

The company employs about 3,200 in Hong Kong but, like some competitors, is increasingly making use of manufacturing facilities in China, where it now employs another 2,600.

### Automation

The move is an important initiative in the struggle to contain costs. When Kader's plant opened in Shenzhen in 1983, the more labour-intensive manufacturing processes were transferred there and goods were normally completed in the Hong Kong factories. More recently, the production process has in some cases been handled in China and some shipments are made direct to overseas customers.

According to Mr Ting: "An increasing proportion of manufacturing is being sub-contracted to outside manufacturers in China, with corresponding cost savings. We even have hundreds of thousands of dresses made in China for our Cabbage Patch dolls. We lend them the sewing machines."

Kader reckons that by last year nearly half of production

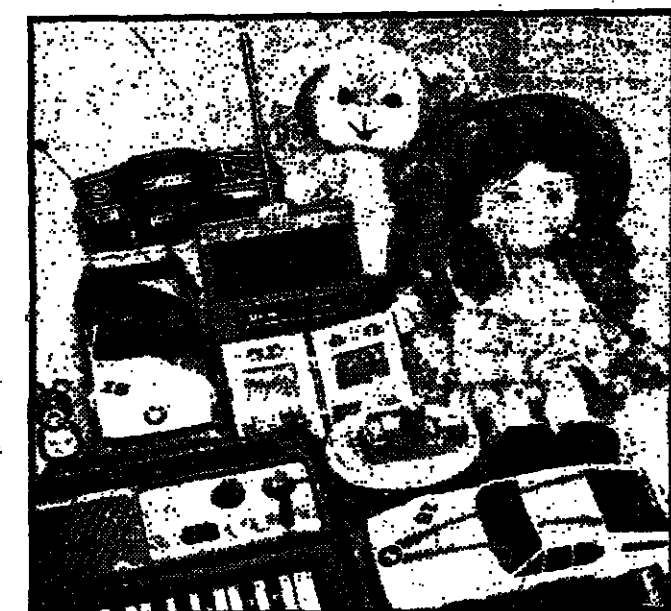
work on its products was being carried out in China.

Although toy production remains relatively labour-intensive, the major manufacturers have embarked on substantial investment programmes designed to increase automation and raise volume output. At the same time, product development is being stepped up to ensure the next generation of toys is ready to take over from today's popular products.

Whatever arrangements are made to produce toys at competitive prices, most manufacturers are aware of the need to maintain standards and quality. In the past, Hong Kong's reputation for low quality toys was worldwide and it has taken years to overcome the image.

Mr Blauw comments: "When the toy manufacturing business got under way, it was rough and ready and producers were having to experiment with materials and product lines. A great deal of what they produced was inferior but they quickly introduced improvements. Even so, the stigma still sometimes sticks, so manufacturers are even more determined to provide quality and value for money."

One of the industry's biggest headaches is ensuring that its product lines meet the widely differing standards applied in each of its customer nations.



Hong Kong is now the leading exporter of toys, with exports amounting to HK\$11.5bn. More than 2,400 manufacturers are active in the growing market.

According to Blauw: "Importing countries demand a wide range of specifications designed to meet local requirements and failure to take them into account can spell disaster."

Hong Kong's ability to maintain its leading position in the toy exporting league will depend on the industry's cost competitiveness, and its ability to produce quickly and in volume.

Failure to maintain the performance will quickly be turned to the advantage of competitors. But the production of toys will always remain a high-risk business. While characters from Star Wars and Cabbage Patch kids may have proved consistently good sellers, there are warehouses in Hong Kong allegedly stuffed to the skylights with unwanted ET dolls.

# HONG KONG

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## Hong Kong 13

# Charting a course to avoid depleted waters

## Fishing

LARRY KLINGER

HONG KONG'S fishing industry is faced with a problem: the territory's catch is levelling off and the available waters are reckoned to be exploited to the full and now in real danger of being dangerously over-fished.

And officials say there is little that can be done, at least for the moment, to change the situation. The diplomatic distance between the points of the triangle within which the industry finds itself—Hong Kong, China and Taiwan—means that any idea of managing jointly these waters to mutual benefit is impossible.

The almost complete lack of formal contacts between the three means that not even scientific evidence can be freely exchanged and pooled to establish what resources actually exist, even if this information were available. In China's case, it probably is not.

## Dwindling

Yet, fishing remains of considerable importance to Hong Kong. While dwindling in terms of the number of people who earn their living from the sea, the industry still produces 90 per cent of the marine fish eaten by Hong Kong's population, whose consumption rate is in the world's top 10.

The industry also remains significant economically, employing about 28,000 people, who last year landed a total catch of nearly 200,000 tonnes, worth an estimated HK\$1.8bn.

It is also of social importance, a traditional industry of small ports scattered across the territory's islands and manned by the Tanks and Hoklo communities, which for millennia have fished the northern shelf of the South China Sea. Most vessels are still owner-operated. As in most of the world's

fishing fleets, however, the modernisation that has been taking place over recent years has brought benefits and problems. Mechanisation and improved fishing methods (about 4,400 of the fleet's 4,700 boats are motor-powered) has meant bigger and better catches (182,000 tonnes in 1984 compared with 128,000 tonnes in 1973) higher income (landings only fetched HK\$467m in 1973) better working conditions and extended ranges for boats in reduced travelling time.

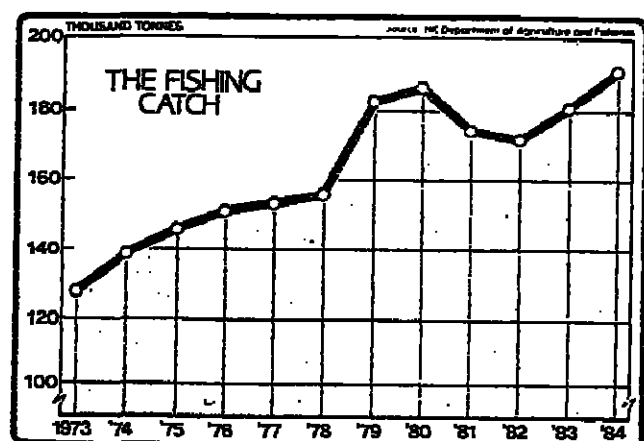
However, it has also meant fewer vessels (there were nearly 5,500 10 years ago) and less employment (about a tenth of 1 per cent of the economically active population now against 1.7 per cent 10 years ago). Larger quantities of fish are also being taken in waters already being depleted, and this in turn, has led to the search for more fish towards Vietnam and Philippine waters, leading to clashes in which there have been arrests.

There are other difficulties. Operating costs, especially for fuel, are outstripping the increase in catches. More of the catch is being landed in China in exchange for diesel, where it costs about 25 per cent less than at home, and boat owners, in the search for cheaper labour, are hiring more mainlanders as crew. Most boats have dual licences, granted by Hong Kong and nearby Chinese provinces.

Nevertheless, the over-riding problem remains the long-term danger of over-fishing by the Hongkongers themselves and their colleagues in China and Taiwan.

"The Hong Kong Government monitors its own fishing, and the indications are that it is no longer a question of declining abundance. Existing fishing grounds are in real danger of being over-exploited," said an official at the Department of Agriculture and Fisheries.

There has been a distinct falling-off of catches in most traditional grounds, and stocks



in areas which recently showed some improvement are again levelling off. Hong Kong retains its long-standing official policy of trying to ensure an ample supply of fish through a viable home-grown industry, but the Government admits it can do little more than it has already.

This includes a programme of inland freshwater pond farming and coastal marine farming, which last year provided the territory with 6,500 tonnes of freshwater fish valued at HK\$103m and marine production of 1,300 tonnes valued at about HK\$100m. However, possible expansion in farming is limited by geographical constraints, especially for the potentially more important marine farming because much of the territory's suitable coastline is already occupied by harbours and public recreational areas.

## Extensive search

The Department of Agriculture and Fisheries has also made an extensive search for 'new fisheries' in Hong Kong waters. Because the industry almost exclusively fishes for species which dwell on or near the seabed, marine scientists have mounted a research programme to find fish at shallower depths but they located nothing that would lend itself to commercial exploitation.

Research is now being launched to see if Hong Kong might unilaterally improve stocks by finding areas where its fleet can limit fishing or use nets with larger mesh sizes to protect nurseries. Here too, however, the hopes are not high because without a shared policy in the Hong Kong/China/Taiwan triangle, significant conservation limits on the home fleet would only benefit other fishing nations and would not limit the overall catch.

The Government hopes that it can at least promote a general awareness of the danger, and scientists are encouraged by the apparent stirrings of concern in China, which recently banned fishing along its coast to a depth of 40 metres to protect nursery grounds.

This, of course, also had the effect of restricting the Hong Kong fleet as well, and, in the tense atmosphere of the run-up to reversion to Chinese sovereignty, new worries have surfaced among Hongkongers about whether China might impose further restrictions, if it feels that Hong Kong's modernised fleet is a threat to its own less-developed one.

Hong Kong's fishermen are in a tight position. The Government is certainly in no position to manage the region's wider fisheries, having only real control over about five miles of water in any direction. The territory is effectively surrounded by China.

At the moment, the Hong Kong fleet has access to waters along the Chinese shelf, from the half of Tonkin Bay not controlled by Vietnam, around Hainan Island, up into the East China Sea past Taiwan.

"It is all very delicate," said a government economist. "On the one hand, we want to be able to protect the fisheries for the longer-term food supply. On the other hand, like any government, we are responsible for protecting the viability of our own industries."

# Success brings its problems

## Tourism

MICHAEL CASSELL

ON A BUSY DAY, Hong Kong's crowded, colourful streets may have to find room for up to 300,000 tourists — apart from a few million of its own inhabitants.

Last year the tiny territory clinging to China's underbelly played host to a record 3.15m overseas visitors. Lured by the prospect of good food, unbeatable shopping, a glimpse of the Orient and the increasing chance of a trip into the People's Republic, the number of tourists have continued to swell.

In 1984 revenue from tourism reached just over HK\$14bn, a 23 per cent increase over the previous 12 months. There are no signs that the bubble will burst.

The tourist industry has become big business, directly employing more than 120,000 people and with as many as 500,000 associated with it. For years its potential contribution to the economy was underrated by the Government, but no longer is that the case.

Rarely has Hong Kong been at the centre of so much world attention. While the political uncertainty surrounding its future may have created all sorts of tensions and problems for its people, recent events have helped place it even more prominently on the international tourist map.

Mr John Pain, executive director of the Hong Kong Tourist Association, says that the strength of the U.S. dollar, the corresponding weakness of the Hong Kong dollar and, until recently, the widely held belief that the territory might not always be so easy to visit, have added to its pulling powers.

Hong Kong is top of the tourist league with visitors from ASEAN nations, from Japan and from the U.S. Its popularity in these and other nations is being aggressively promoted by the association, which in 1985 has a HK\$104m budget — this year, for the first time, derived exclusively from hotel room taxes. Mr Pain says the tourist success is not taken for granted and the association is pursuing policies to tap new sources of visitors.

The association works hard to promote the variety of experience and good value offered by Hong Kong and has introduced special tours like those to the New Territories to widen the choice for visitors. It is also offering the benefit of its experience to help new tour operators set up in business and sell Hong Kong.

## Pressure

If the industry has problems, they appear to be associated with its success. The huge increase in arrivals has put increasing pressure on the territory's 18,000 hotel rooms and worked through in higher room rates. Complaints of increasing charges have been rising, although the association emphasises that by international standards Hong Kong still offers comparatively cheap accommodation.

About 18 months ago, the hotel industry saw the crunch coming and embarked on a new wave of development. From a point where virtually no new hotel rooms were being planned, more than 6,000 were on the drawing board six months ago, a figure which has now risen to about 10,000. Not all may be built, but the possibility has provoked some warnings of another phase of overbuilding. Within four years, the total inventory of hotel rooms should stand at almost 26,000.

At least 14 hotels are in various stages of development, including a 20-storey building

in Connaught Road West on Hong Kong Island, scheduled for completion this year; the Kowloon Hotel, a 743-room property behind the Peninsula; and two hotels offering 1,710 rooms in the new Hong Kong International exhibition centre being developed on the Wanchai waterfront.

It looks as though the rooms cannot materialise a moment too soon. In a tourist centre where 70 per cent occupancy rates have historically represented something of a crisis, recent rates have averaged nearly 90 per cent and travel agents have been experiencing growing difficulties in securing accommodation.

If overall numbers of tourists remain highly encouraging, Hong Kong is now working hard on improving the profile of its visitors. It is concentrating efforts on attracting higher-spending and people prepared to stay longer, as well as out of season. The incentive travel business—235 groups stayed last year—and Hong Kong's conference and exhibition facilities represent increasingly important sources of earnings.

Last year there were more than 450 conferences and exhibitions attended by 70,000 delegates, most from the U.S. The business will be boosted further by the development of the international exhibition centre in Harbour Road, Wanchai, timed for completion in 1988. The HK\$1.5bn project is being financed by New World Development.

One of Hong Kong's principal attractions is its giant neighbour to the north and the desire of a growing number of tourists to take a trip inside a nation whose doors were closed for so long.

At least 12 per cent of Hong Kong's visitors are estimated to cross the border and this is quickly growing. The trend has worked to Hong Kong's advantage but there is concern over the extent to which the China connection could backfire.

About 90 per cent of Hong Kong's visitors arrive by air at Kai Tak airport, offering one of the world's most spectacular approaches. But Kai Tak could face saturation by the early 1990s. Ambitious and costly plans for a new airport on Lantau island have been scrapped, so the existing facilities could soon become an embarrassing bottleneck.

## Dilemma

The Chinese may solve the dilemma by developing their own international air terminal close to the border, possibly in Shenzhen, encouraging a growing proportion of travellers to make China their first port of call. Hong Kong would then become the destination for a one- or two-day trip and the tables will have been reversed.

There is also concern about the flow of Chinese visitors into Hong Kong. Each year about 250,000 Chinese visit the territory but they are demanding more basic facilities than other international travellers and there is concern that in attempting to meet their needs those of higher-spending tourists could be overlooked.

There are also claims that the Chinese make little direct financial contribution to Hong Kong's tourist economy, whilst making a disproportionate demands on its facilities. (The average spending by all Hong Kong visitors was HK\$4,300 a head last year.)

Such concerns, however, are not allowed to overshadow Hong Kong's success in drawing visitors from around the world and inviting them to participate "in one of life's great adventures."

The territory can be infuriatingly sticky and occasionally smelly, hopelessly overcrowded, offensively noisy and immensely rich in experience. This year, another 3m or 4m people will give it a go and few will be disappointed.

# China's investment links

CHINA'S investments in Hong Kong, spanning banking and trading as well as manufacturing, are estimated at about HK\$5bn. Of this, perhaps HK\$2bn has been funnelled into manufacturing industry.

The Hong Kong Government has no accurate figures, and it is making an attempt to measure mainland investment. China's "Sister Banks," which channel funds into Hong Kong-based ventures, rarely make public their investments. They are under no pressure to make their holdings in local companies public until they reach a controlling level. Even then, nominee names can disguise the source of investment.

This alone makes the government statisticians' task difficult but far more perplexing is that much investment is agreed informally, based on links between small family-controlled companies in Hong Kong and enterprises in China.

One official at Hong Kong's Industry Department said: "There are more than 40,000 companies in Hong Kong. Most are tiny, and any one could have funding from Chinese sources."

Officials know that, for instance, a large number of electronics companies in Hong Kong's Taiipo industrial estate have mainland backing.

As in the textile sector, many of these companies have strong links with partners in China either supplying high technology components to enhance domestic Chinese production or buying from Chinese counterparts before manufacturing for export.

Unfortunately for China's image, most times investment has been revealed have been

For a long time, the economic prosperity of Hong Kong has been inseparable from the powerful support from China.

Wei Yuning, Deputy Minister of Foreign Economic Relations and Trade

unhappy ones. When Conic Investments, one of Hong Kong's leading electronics companies, collapsed last year amid scandal over the disappearance of funds, it was the Bank of China group that was forced to bail the company out.

The bank probably lost hundreds of millions of Hong Kong dollars. The company is likely to be in a frail state for a long time, although an increasing proportion of its output is now going to the mainland.

China Cement has proven another headache for the Bank of China. The plant went into operation in 1983 after costing HK\$1.1bn to build, and has made losses ever since. In January this year Kaiser Cement of the U.S. and Green Island Cement, the Hong Kong group controlled by Mr Li Kashing, decided to cut their losses, make substantial write-offs, and sell their interests to a Peking-controlled group. The Bank of China group has taken over responsibility for debts exceeding HK\$1bn.

In a different category are investments in the Admiralty II property development, the Hong Kong-China ferry terminal, and the Mass Transit Railway Corporation. Returns

are likely to be modest, but the overriding aim has been to bolster "stability and prosperity" in Hong Kong.

Their political responsibility for fostering confidence in the Territory has been difficult to reconcile with commercial banking logic.

Mr Wang Guangying, whose Everbright Industrial emerged onto the Hong Kong stage two years ago with talk of massive investments in the Territory, has all but gone to ground. Since the collapse last year of a HK\$1bn deal to buy a luxury property development from International City Holdings, some of the shine on his group's reputation has worn off.

One of the most promising mainland ventures is Hongkong and Macao International Investment, capitalised at HK\$500m, with backing from the Bank of China and almost every illustrious Chinese business figure in the Territory.

All its funds have been put at the disposal of the new airline company Dragonair. The airline still has to win permission for charter routes from Hong Kong to Peking and Shanghai.

While the scale of China's investment in Hong Kong is unclear, the discernible trend is so powerful that there can be no doubt that China will play an increasingly important part in funding Hong Kong's industry.

Peking has made many concessions that might be onerous because it sees Hong Kong as a valuable asset. By investing there now, China is aiming to ensure as valuable an asset in 1997 as it is today.

David Dodwell

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## Hong Kong 14

# Bureaucrats' triple squeeze

Civil servants and soldiers are uncertain of their future when China takes control of the colony. A similar uncertainty surrounds government's efforts to control serious pollution problems without harming profitability

香

Society

港

HONG KONG'S civil service faces a "triple squeeze" up to 1997. Expatriates will leave, overseas contract staff prove harder and more expensive to recruit, and local staff will wonder whether they will be suspect once China regains sovereignty if they have been successful under colonial rule.

Many in Hong Kong's free-enterprise economy may say this is no bad thing. Most see bureaucracy as a curse and civil servants as the source. Even those who acknowledge the importance of an efficient and neutral civil service have given little thought to the implications if the service begins to disintegrate.

Hong Kong's civil service has unusual power. In a territory colonially administered since 1842, it has not only advised on, drafted and applied government policy but formulated it as well.

Even as steps are being taken to establish democratically-elected political institutions, civil servants play a leading role in the most powerful decision-making bodies—the executive and legislative councils.

This has given rise to two big worries as Britain prepares to hand over power to Peking in 1997.

● The absence of democratic checks on the civil service will give the Chinese-installed Special Administrative Region (SAR) government immense powers in the territory after 1997.

There have been promises that local people will govern Hong Kong, and that the capitalist way of life will not be disturbed. But many fear that bureaucrats answering to Peking will be ill-attuned to capitalist needs. They might even try to eliminate contradictions in the "one country, two systems" philosophy outlined by Deng Xiaoping, China's leader, as a basis for reunifying with the mainland not just Hong Kong, but also Macao and Taiwan.

● Secondly the civil service has unusual power, so its disintegration would have a powerful impact. Britain is committed

under the Sino-British agreement to ensure a smooth transition of power in 1997, and upheaval inside the civil service could jeopardise this.

Political reforms putting more power in the hands of locally-elected representatives are only now being tentatively introduced, and are unlikely to

## Civil Service

DAVID DODWELL

reduce significantly the power of the civil service. There have been strong signals from Peking that Hong Kong democratic ambitions can only stretch so far.

Expatriates in Hong Kong's civil service have most to lose as sovereignty reverts to China. The Sino-British agreement says the local government "will be composed of local inhabitants." Senior officials will be appointed by the chief executive, who will be appointed by Peking.

Those currently employed in the civil service, both Chinese and foreign, "may remain in

employment," while expatriates "may be employed to serve as advisers or to hold certain public posts."

Career prospects seem unappealing, particularly to expatriates who will not have reached retirement by 1997. All top jobs are likely to be closed and anyone with ambition has begun to look elsewhere.

The expatriates are an anomalous group who are inevitable victims of decolonisation. The writing has been on the wall for many years and the colonial government has been committed to localisation for more than a decade.

Recruitment of expatriates on permanent and pensionable terms has ended this year even among the elite ranks of administrative officers and the police. By 1997 there will be a maximum of 70 pensionable expatriate officers who have reached retirement.

The small number of expatriates left belies their importance. Of 171,000 in the civil service, including teachers, road sweepers and barristers, 2 per cent are expatriates. Even at executive officer level, just below the elite administrative

grades, only 15 of 259 senior officers are expatriates. It is in the police, where one third of officers above inspector level are recruited from overseas, and in the administrative grades that local people have yet to make their mark. Nine of the 13 secretaries heading government departments are expatriates.

There is heavy dependence on expatriates in other professional areas, particularly the legal profession. In the past such staff could expect fairly routine renewal of contracts. This is no longer so and morale has fallen. Many are seeking work elsewhere, and the price of recruiting replacements is likely to rise as the prospect of a career dwindles.

Locally-born civil servants face 1997 with mixed feelings. Localisation offers unique opportunities for rapid promotion but many are wary of what it will be like to work for masters answering to Peking.

The loose reins offered by Britain in these last decades of colonial rule have given the local administration liberty to use discretion in drafting and implementing policy. If Peking tightens control after 1997, the loss of liberty will be keenly felt.

Most local civil servants seem willing to give Peking the benefit of the doubt. They admit, however, that everything rests on Peking acting in good faith and the letter and spirit of the Sino-British agreement.

China's bureaucracy has a reputation for ponderousness, inflexibility and obduracy which many blame for the painfully slow climb back to economic strength and political stability. Hong Kong's administration, on the other hand, has a comparatively light touch, and the territory's vitality is in no small part due to this.

If the "triple squeeze" weakens the service during the next 12 years then this light touch could be lost. The special administrative region of Hong Kong would pay a high price—and so would China.



The Royal Hong Kong Regiment in training

## Gurkhas fear for the future

## Defence

MARY ANN SIEGHART

ABOUT THE only thing that is certain about Hong Kong's future defence is that after 1997 it will not be conducted by the British.

Since the defence cuts of the early 1970s when heavy fighting forces and weapons were pulled out of Hong Kong, Britain has kept about 12,000 soldiers there, mainly from the Brigade of Gurkhas whose home base is Hong Kong.

The Army has long given up the idea of being able to defend the territory against a determined invader. It is there now to prevent illegal immigrants crossing the border with mainland China and to back up the domestic police during civil unrest.

The two vital questions are: who will replace the Army, and what will happen to the Gurkhas? The first may be decided by the Joint Liaison Group or unilaterally by China. The second is a problem for the British Government.

The Army is giving nothing away. "The decision is the Prime Minister's," says Brig Christopher Pike of the Brigade of Gurkhas.

Under the Sino-British agreement, the Chinese would take responsibility for Hong Kong's external defence, and internal public order would remain the province of the special administrative region. Gen Derek Boorman, commander of British forces in Hong Kong until he left the territory in May, suggested that rather than just expanding the local police for this purpose, the Hong Kong Government was considering setting up a locally-recruited and separate back-up force.

He said it would be "inappropriate" for Chinese troops to maintain law and order.

But in May 1984, Deng Xiaoping, the Chinese leader, said he intended to put between 3,000 and 5,000 troops in the territory after 1997.

The Gurkhas are worried what will happen to them. They are recruited annually from Nepal, and competition is extremely fierce. They send money back to families who otherwise have to rely on subsistence farming. The relationship with the British goes back 180 years, when the East India Company was so impressed by the ferocity and skills of the King of Nepal's Gurkhas that it offered to take them on once peace was made.

During that time, the bravery of Gurkha regiments has earned them 26 Victoria Crosses.

The problem is whether the army can afford to assimilate about 3,500 Gurkhas into its activities outside Hong Kong.

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## Competition worries limit clean-up

## Pollution

ALEXANDER NICOLL

ANYONE LANDING at Kai Tak airport will have an inkling of Hong Kong's environmental problems. Approaching aircraft skim the Kowloon rooftops, bringing constant noise to local residents; high rise blocks attest to high population density as far as the eye can see; and an appalling stench rises from stagnant harbour water trapped by the airport runway.

Not immediately obvious are the colony's more serious and pervasive pollutants: nearly 1m tonnes of sewage pumped into its waters every day (more lethal) 2,000 tonnes of pig and poultry waste dumped daily into its rivers. In the air, there is the residue from the Government's refuse incinerators and the sulphur dioxide created by wide use in industry of cheap, high-sulphur fuel.

As if these and other persistent problems were not enough, an increasingly vocal environmentalist lobby is

anxious about a 1,800mW nuclear station, being built at Daya Bay, China, 40 miles from Hong Kong, in conjunction with Hong Kong's China Light and Power. The plant will supply electricity to the colony.

Nuclear concerns aside, Hong Kong's problems are, in fact, not government action to deal with them has been hampered by reluctance to damage economic competitiveness.

Mr Henry Ching, until recently Secretary of Health and Welfare, summed up this concern in a speech which emphasised the need for more co-ordinated action against pollution—but within reason. "We must take care not to lose the baby with the bathwater. . . . The problem faced by our industrial and manufacturing sectors are clear enough to us all, and it obviously would not be sensible to impose controls which seriously threatened their competitiveness," he said.

Mr S. L. Wan, chairman of the Conservancy Association, a non-governmental watchdog, takes a less generous view. "The most serious problem is leadership at the highest levels of Government," he says.

"The Government view is that it is desirable but not essential or fundamental. I've fought a number of losing battles."

## Complaint

Hong Kong does have a dynamic Environmental Protection Agency. Its role, so far, has been to monitor pollution levels to detect legislation and to plan—in particular, to take an active role in the planning of the new developments and projects which will continue to spring up everywhere to accommodate an ever-expanding population.

The EPA has no enforcement role. Anybody wishing to express concern about a particular environmental problem must consult a list of telephone numbers several pages long to find out which office of which government department should receive the complaint.

Six different departments, for example, are responsible for handling complaints about different types of air pollution. The bureaucratic frustrations of making a complaint can be imagined.

Next year the EPA is likely to become a full-fledged department, though its make-up and enforcement powers remain to be defined. It will, however, provide a central complaint function, simplifying life not only for disgruntled citizens but also for industrial companies and others seeking advice on environmental issues.

Laws to deal with most types of pollution (though not noise) are in place, but so far, they are basically enabling legislation with precise regulations still to be filled in. Most importantly, they will have little impact on existing industrial factories and on other current sources of pollution—notably those controlled by the Government.

An existing factory will, in fact, be able to increase its output of pollutants by as much as 30 per cent without breaking the law. To tighten up on plants already built would, it is

argued, put them out of business.

Instead, the thrust of government policy is to ensure that new factories and other developments are built according to strict standards. This means that the cost of environmental control is considerably reduced, but it also means that the controls will "take a long time—perhaps decades—to bite."

To combat noise, it looks as though the Government will continue to rely basically on good planning of new housing developments and appeals for good neighbourliness.

"It is possible to argue that noise is, to a large extent, not much more than an irritant and a nuisance, and that its polluting effect largely ceases when the noise ceases to be made," Mr Ching said.

There are plans, however, to control construction, industrial and aircraft noise. Between 5m and 6m people crammed into a tight area not only make a lot of noise for each other but also produce a lot of sewage, most of which is pumped virtually untreated into the harbour.

This is not as bad as it might seem. A strong tide takes most of it away every day, leaving problems only in individual black spots where water is trapped. Much depends on the extent to which the receiving "water" is polluted already.

It is unlikely that there will be any significant change in the methods for dealing with sewage. In planning a future large development at Junk Bay, for example, the EPA at first considered placing a "secondary" full-scale treatment plant near the new town. But it was decided that the effluent from the plant would create too many problems when trapped within the bay, and that it would be better to pump the sewage further away to a cheaper, "primary" plant from which it would be washed out to sea by a strong current.

Most people view the waste from Hong Kong's 500,000 pigs, not to mention its chickens, ducks and goats.

The Government encouraged pig-farming during the Cultural Revolution when supplies from China were cut off. But there is no available land upon which to dispose of the inevitable consequence, so the farms dump it into the streams. From there,

it causes untold hazards in the residential districts through which rivers flow, and finally in the sea.

The Government plans to compensate the farmers and will probably ban pigs and chickens, at least in urban areas. Agricultural waste is blamed by some for the destruction in 1979 of Hong Kong's centuries-old oyster industry. The EPA, however, has not pinned down the cause. Pollution of Hong Kong's water is aggravated, especially in the west, by the nearby mouth of China's Pearl River.

Industrial waste is, by comparison, a minor pollutant of Hong Kong's water except in the urban areas. But sulphur dioxide produced by industry is a major air concern.

## Incinerators

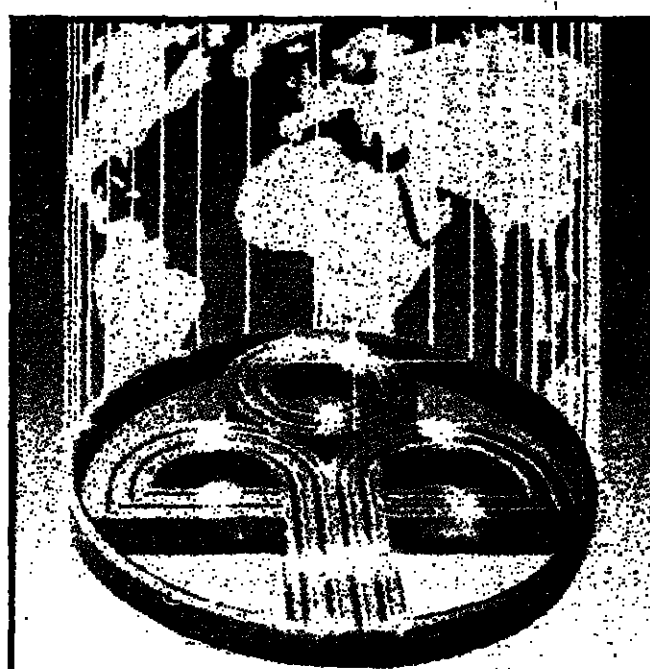
Every method of dealing with it costs a significant amount of money. These include building taller chimneys, stacks from which the gas can be dispersed more effectively into the atmosphere (which is unreliable and will produce acid rain); use of more expensive, less sulphurous fuel (difficult when Hong Kong is entirely dependent on imported fuels); and installation of equipment to desulphurise flue gas.

The last method may prove the most cost-effective for the 200 or so factories which produce more than half the colony's sulphur dioxide, though clearly a strong government lead is required before anything will be done.

The government, in fact, is probably the worst polluter of the air, through its three refuse incinerators, which are not fitted with smoke-reducing electrostatic precipitators.

The EPA is considering plans to reorganise refuse disposal in the colony, which would not only remove the incinerators but also introduce private sector participation as has been occurring in the UK. But at Kennedy Town on Hong Kong island, described by one EPA official as "a disaster," the incinerator problem is likely to remain for many years.

Among many other hazards are dust produced by construction, and exhaust emissions. About half the colony's vehicles are run on cheap diesel, which produces fumes containing carcinogens.



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## Hong Kong 15

## Business Guide

COMPILED BY MAUREEN AUNG THWIN



How to move around the colony, where to stay or play, and a few tips on visiting mainland China

HONG KONG is easy to handle. Taxis are plentiful and cheap (except when you take Kowloon-based cabs to Hong Kong or vice versa), local telephone calls are free, the Rapid Transit (MTR) is exactly what it says it is (and probably the world's cleanest), and most people in the service industries speak English.

It is easy to get cheated by shopkeepers and money changers, so if you suspect something, make an immediate report to the Hong Kong Tourist Association, which is well-organised and helpful. Its tourist handbook, available in most hotel rooms, gives useful tips on where and how to shop.

## HOTELS

Most middle- to top-class hotels are excellent but can be booked solid, for Hong Kong is a powerful magnet for tourists and businessmen. Make sure you have a room reserved before coming.

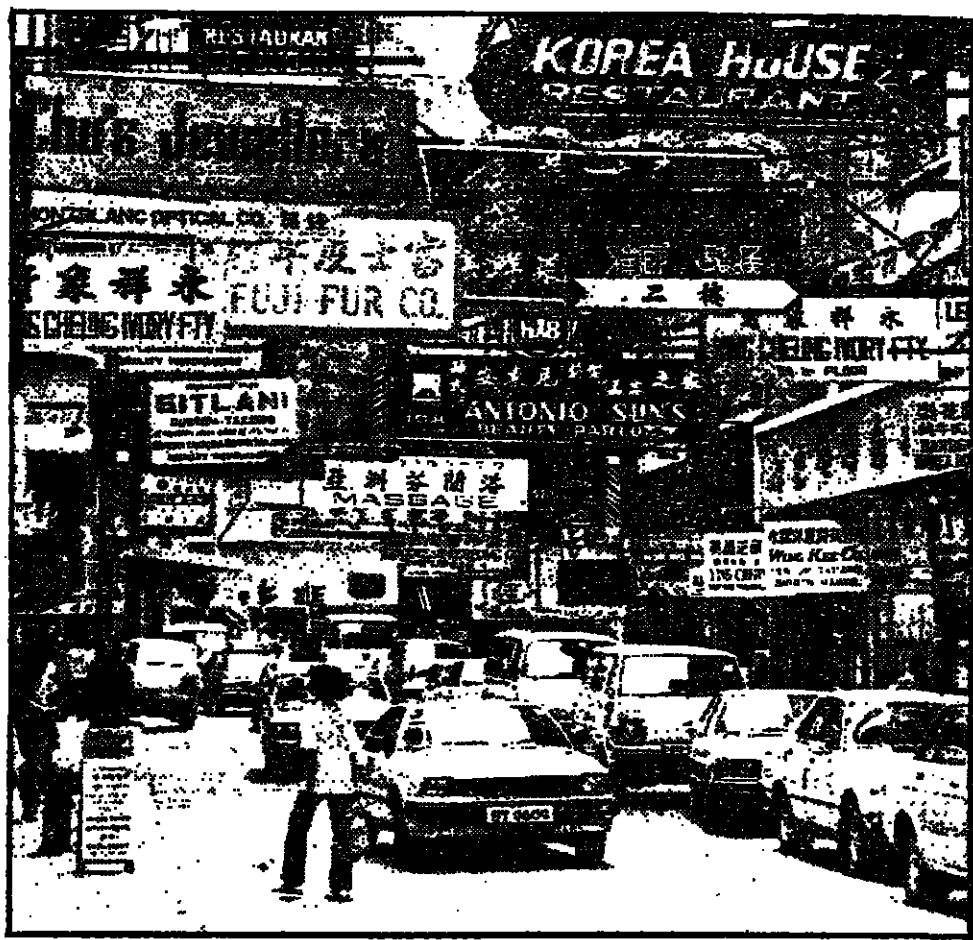
It makes little difference whether you stay on Hong Kong Island or in nearby Kowloon because of the variety and easy availability of transport. But for those who like to be where the action is, the centre of the territory is slowly shifting from Hong Kong Island to the dynamic Tsing Sha Tsui area of Kowloon, which boasts everything Hong Kong Island has except for Victoria Peak.

## EATING

Unlike Western cities, the best places to eat tend to be the hotels, at least for European food. These also serve as mainstays for nightly dancing and entertainment.

Lunch is a gourmet's delight, with most top-class hotels offering sumptuous buffets and "businessman's specials" at exceptionally low prices. One of the best deals in town is the squire lunch at the elegant Gaddi's in the Peninsula Hotel—three courses with a glass of wine for HK\$100. There is also a curry lunch special in their L'Aperitif lounge.

Other notable gourmet luncheons in Kowloon include the Royal Garden's Liqueur



Neon City, Kowloon, where the power of advertising has become a tourist attraction

(HK\$82), and the Shangri-La's Margaux (HK\$88). The Holiday Inn Harbour View features gourmet health menus in several restaurants, including an excellent chicken lasagna made with home-made pasta in the Belvedere.

Hong Kong Island has a captive lunchtime clientele so restaurants are often crowded. Everyone lunches at 1 pm in Hong Kong. The Hilton Grill offers a three-course lunch for HK\$100 and promises to serve the whole meal, if necessary, within an hour. The Mandarin Hotel's Clipper Lounge has the best steak tartare sandwich in town.

Food in general is superb in Hong Kong, whose residents have become spoiled by the abundance of fresh local and imported food year-round.

Dinner at the Regent's Plume or the Mandarin's Pierrot is comparable in quality and price to better restaurants in New York or London. For the price of dinner, however, you could rent a yacht for a day or fly to Manila for three days.

A couple of eating places not in hotels are worth a mention: the Cozy Vini and Salumi, an Italian restaurant at 84 Morrison Road in Happy Valley, and the Lam Kwai Fong area (above Queen's Road up D'Aguiar Street) is a whole world of trendy restaurants and shops.

It is difficult to get a bad Chinese meal in Hong Kong, and easy to have spectacular food if you know how to order. Some excellent places like the

Lok Yu Tea House or the Fuk Lam Mun restaurant cannot be appreciated without a Chinese-speaking companion.

But if striking out on your own, there are many good Chinese restaurants to be recommended: the Jade and Peking Garden chain is never disappointing.

You can try exotic fare like yak meat at the elegant North Park restaurant in Wanchai (but beware of what can be exorbitant "seasonally priced" items) or Sichuan cuisine in high-tech surroundings at the Pep n' Chili. Chiu Chow food at the Carrara restaurant is superb, as is the Cantonese food at the Tsui Hang Village in the New World Tower in Hong Kong.

## ENTERTAINING

Even if you are a visitor you can be innovative about business-entertaining. Most hotels will arrange almost any special function, such as renting out the swimming pool area for an evening buffet, or catering food for a day or evening cruise in the harbour.

Charter Boats Hong Kong, at 11 Shum Wan Road, Aberdeen (Tel: 5-557-349) offers long- and short-term rentals of yachts, sailboats, junks and cruisers, complete with skipper/coxswain. Prices are sometimes negotiable. Dropping anchor in Chinese waters near To-Ning Island or Daya Bay can be arranged, but going ashore is still prohibited.

Hong Kong is club country, so if you belong to a club at home, bring your membership card in the likelihood that an organisation will have a reciprocal arrangement. Many hotels can obtain weekday passes to certain Hong Kong private clubs like Fanning Golf Club in the New Territories.

American Express card holders have automatic access to the London No. 1 Club's half dozen affiliates in Hong Kong, which includes the Clearwater Bay Golf and Country Club. Bi-weekly horse races are rotated between the Happy Valley track on the island and the newer one in Sha Tin in the New Territories. Both courses are easy to reach by taxi or train. For the more adventurous, the casinos in Macau are only 50 minutes away by jet-foil.

## NIGHTLIFE

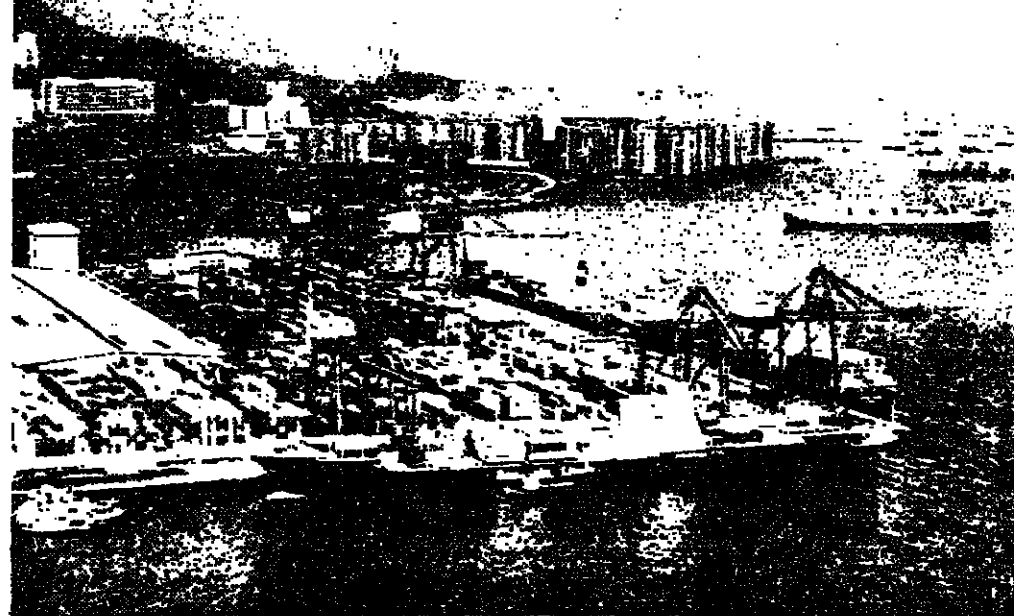
Hong Kong's nightlife is more diverse than any other Asian city except perhaps Tokyo. There is good jazz almost daily at Rick's Cafe in Tsim Sha Tsui and on Sundays in the Dickens Bar at the Excelsior Hotel on Hong Kong Island.

Most hotels feature instrumental music groups, and there is a plethora of nightclubs around town for the more energetic.

Check the daily newspapers for special events. Occasionally you can take in the big time like the New York Philharmonic or David Bowie—at Hong Kong prices.

## HONG KONG

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Hong Kong  
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Hong Kong's economic success is based on its manufacturing industries. Export volume has doubled over the last five years and is now growing at over 30% p.a.

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- ☐ resources of a major international finance centre
- ☐ hub of the Far East communication network
- ☐ business climate which is conducive to enterprise and where success is rewarded

Contact: Mr. D. M. Fletcher, Hong Kong Government Industrial Promotion Office, 6 Grafton Street, London W1X 3LB. Telephone: 01-499 9821.

The China Investment Guide is the definitive and authoritative source of essential information on the investment and trading infrastructure of China, its rules and regulations. Authorship has been coordinated by China International Economic Consultants Inc (CIEC), backed by a prestigious and broadly based editorial board which includes representatives of the Ministries of Economic Relations and Trade, Finance and Justice.

Published in both English and Chinese editions, the Guide is being distributed in China to officials responsible for investment and trade decision-making. For those businesses and organisations able to take advantage of the business opportunities which China offers, the Guide is an essential aid to establishing successful ventures. Much of the information is exclusive to the Guide and no other publication contains such a wealth of authorised facts and figures.

THE CHINA  
INVESTMENT  
GUIDE 1984/85

The new era heralded by China's "open door" policy towards the West has presented unrivalled investment and trading opportunities. Since the late seventies foreign trade has increased substantially and overseas investment is now welcomed.

For businessmen and government officials involved, or planning to be involved, in investment and trade with China, a prime requirement is accurate information—who to approach in which organisation, which province offers the best location, what types of proposal are acceptable, the structure of government and relevant Chinese law.

Now, for the first time, all this information has been brought together. The China Investment Guide provides comprehensive coverage of the Chinese business environment and investment conditions, the appropriate laws, regulations and procedures, and the policies and priorities of the Chinese authorities toward foreign investment.

Among the special features which make the Guide the authority are:

- Totally reliable translation of key trade and investment legislation by an official consultancy organisation,
- size, population and complexity.
- Discloses the essential procedures and problems likely to arise in Sino-western negotiations—the view of the insider and an indication of the official policy and strategy with regard to foreign trade and investment.
- Discusses the latest Patent Legislation and the view of the government towards protection of foreign industrial property rights.
- Up-to-date and specially commissioned maps of main cities.

CIEC, whose legal office is authorised by the Ministry of Justice to handle legal matters involving foreign interest.

• Up-to-date and comprehensive statistics and data on China's Special Economic Zones, main cities, provinces, municipalities, and industries not easily available outside China and certainly hitherto not consolidated in one volume.

• Lists of all the organisations, consultant corporations and companies involved in foreign trade and investment, their personnel, structure and functions—essential to the foreign traders and investors who need to know who to contact and how in a country of China's

essential for the foreign visitor. This major investment guide has been written with the approval of the official investment consulting corporation, China International Economic Consultants Inc (CIEC). The editorial advisory board includes key personnel from the Ministry of Foreign Economic Relations and Trade, the Ministry of Finance, the Ministry of Justice, China International Trust & Investment Corporation, the State Planning Commission, the State Economic Commission, the State Economic Research Centre as well as the Bank of China, the People's Bank of China, the Customs authorities, and other important state departments. Obviously, with such a distinguished team of advisors, all the information contained in the Guide's twenty chapters can be confidently relied upon.

## YES

Please send me \_\_\_\_\_ copy/ies of the China Investment Guide and bill me.  
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## Mother China is closer than ever

CHINA IS politically and psychologically closer to Hong Kong than ever—and much easier to get to. A short trip into the interior is not only inexpensive, but quite simple to arrange.

Some tours can be booked a day before departure through travel desks in hotels, but more complicated trips should be handled by established Hong Kong travel companies that are equipped to deal with snags—which will almost certainly occur.

Visas used to be the main problem, especially for individual travellers. Now most travel agencies can produce one in as little as three hours—for a fee. It is possible in theory to get a visa at Peking Airport, though I have yet to find anyone who recommends that.

Whether to take a train, plane or ferry depends on how much

time you have. Only a handful of non-Chinese airlines fly into the mainland, so flexibility demands taking the state-run carrier, CAAC, with its well-earned reputation for poor and erratic service.

CAAC officials say they are trying to upgrade services, but it may be some time before passengers notice any improvement. For shorter journeys it is worth thinking about trains, which are slower but invariably depart and arrive on time.

Hovercraft to China either from the Tai Kok Tsui pier in Kowloon or via Macau are fast and clean. They provide links with a fascinating array of cities along the Pearl River Delta up to Guangzhou (Canton).

Even with confirmed reservations in China, things can and do go wrong. The best guarantee for resolving unforeseen hassles is to use a reputable

travel agent that has good contacts—and clout—with China International Travel Service (CITS).

For individually-tailored travel, Abercrombie and Kent (10F Siberian Fur Store Building, 29 Des Voeux Road, Hong Kong, tel: 5-216-687) will arrange tourist and/or business trips on short notice.

Other veteran China travel arrangers include Silkswey Travel (suite 1127A Star House, Kowloon, tel: 3-734-3322), which can even connect you with the trans-Siberian railway to Moscow and London.

Swire Travel is one of Hong Kong's most experienced companies handling China trips (Swire Travel, 2F, Swire House, Hong Kong, tel: 5-216-216). American Express has opened a one-stop travel service centre on the ground floor of the New World Tower on Queen's Road Central (tel: 5-214-821).

The South China Morning Post Family Bookstores and Kelly and Walsh are among several English-language bookstores that carry China-related books. The Regal Meridian Hotel at Kaitak Airport has a China trade centre, which is a clearing house of information on doing business (tel: 3-716-601).

## WHERE TO GO

While the tourist tracks to places like Guangzhou and Shenzhen are heavily trodden, there are an increasing number of unspoiled areas within easy striking distance of Hong Kong. You can now play golf in China (on a course designed by Arnold Palmer) at the Zhong Shan Hot Spring Golf Club and Resort, a little over an hour away from Hong Kong by hovercraft.

Private villas—with jacuzzis—can be rented for quite reasonable rates. (Zhong Shan Resort's Hong Kong office: room 504, Pedder Building, Pedder Street, Hong Kong, tel: 5-210-317).

Best of the one-day packages, are probably through the quaint

Portuguese-administered territory of Macau. Hovercraft trips up the Pearl River to Guangzhou are also possible in a day.

Three to five days will provide time for the astonishing mountain scenery around Guilin (travel by air via Guangzhou). Or take an overnight boat to Shanghai, or fly directly to Xian (rich in dispersed archaeological sites so a car and guide will be needed). Kunming, a centre of colourful minority culture in Yunnan Province, is a short direct flight from Hong Kong.

WHEN TO GO  
October and May are the loveliest months but also the busiest, which may mean it is hard to get hotel rooms or good tour guides. Mid-winter and summer weather in China can be extreme, although temperature control in most tourist hotels is adequate.

Travel during festival times, like the Chinese New Year around February or the mid-autumn festival, can be a lively but horribly crowded experience.

## TRAVEL TIPS

• Make sure return arrangements from China are made before you leave Hong Kong. Don't forget to take the phone numbers of your Hong Kong travel agency.

• If you get stranded don't panic. Contrary to what you may be told about full flights, go and check in for standby status an hour before any flight to Guangzhou or Hong Kong. Last-minute seats are often available.

• Always remember to head for Guangzhou where you can always find a way back to Hong Kong. Bus services from Guangzhou to the Hong Kong border (which closes at 8 pm), are available, as are taxis that cost around US\$100 for the three-hour journey.

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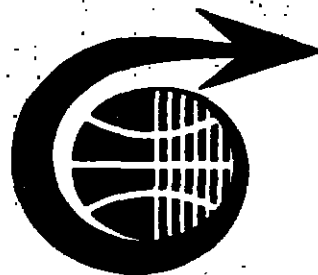


# What makes Hong Kong the most important communications centre in Asia?

Despite its diminutive size, Hong Kong is one of the most sophisticated communications centres in the world with the highest density of telephones per capita in South East Asia.

Keeping the people and businesses of Hong Kong in touch with each other and the rest of the world takes some of the world's most advanced communications systems. Developed and built by the Cable and Wireless Group they make Hong Kong the most reliable and cost-effective communications centre in Asia.

This is why most of the major international corporations have already chosen Hong Kong as the hub of their private communications network within the Asia region. However large or small your requirements, we provide services that will add value to your business.



**The Cable & Wireless Group in Hong Kong  
In touch with tomorrow**

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Asiadata Ltd. • Cable and Wireless Systems Ltd.  
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